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# Conspectus of the

Report of the  
Auditor General of Canada  
to the House of Commons

for the Fiscal Year Ended  
March 31, 1977







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for the Fiscal Year Ended  
March 31, 1977





AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Ottawa, Ontario  
K1A 0G6

To the Honourable the Members of the House of Commons

My Report to the House of Commons for the fiscal year ended March 31, 1977, has been tabled by the Speaker of the House. The Report is published in two volumes, one in English (437 pages) and one in French (474 pages) each including appendices.

Since Members of Parliament have heavy demands on their time, I realize that many will find it difficult to examine the full Report in detail. This Conspectus has been prepared to acquaint them with the Report's contents, and to help them identify sections in which they may be particularly interested.

The Conspectus does not cover every detail of the Report. Rather, it presents a summary. For the reader's convenience, references to the various Parts of the Report appear beside the headings in this Conspectus which also contains a detailed table of contents for the Report. For full information on the matters summarized in the Conspectus, reference should be made to the Report.

Although the Conspectus has been prepared primarily for use by Members of Parliament, I hope that it will also serve as a convenient guide to the Report for others in the public and private sectors who have a particular interest in its subject matter.

  
J.J. Macdonell

November, 1977.





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## THE AUDITOR GENERAL ACT

### (Parts 2 and 19)

During the late 1960s and early 1970s three separate acts to govern the Office of the Auditor General were drafted. The first was published by the Auditor General in his 1969 Annual Report; another was introduced in the House of Commons by the President of the Treasury Board in the fall of 1970, based on a report of the Standing Committee on Public Accounts published earlier that year; and a third was prepared in 1973 on behalf of the Standing Committee on Public Accounts but was never published.

In October 1973, at my first appearance at a hearing of the Standing Committee on Public Accounts following my appointment as Auditor General effective July 1, 1973, I offered the following comments on the proposals of its drafting committee which had prepared the most recent draft legislation:

Because the terms of reference of the drafting committee did not include a study of the functions of the Office of the Auditor General, I am under the impression that no study was made of his duties and responsibilities, the scope of his examinations, and the nature and content of his Report to the House of Commons, all of which have remained substantially unchanged for many years. I am aware that there are significant differences between the duties and responsibilities of the Auditor General of Canada and the scope and nature of his work as compared with his counterparts in other countries.

I went on to announce that after consultation with the Chairman and Vice-Chairman of the Standing Committee on Public Accounts, and with the endorsement of the President of the Treasury Board, I was appointing an Independent Review Committee to conduct a thorough and impartial study of the responsibilities, relationships and independence of the Auditor General as a basis for the review of legislative proposals affecting the Audit Office. This study was the first of its kind undertaken since the Audit Office was formally established in 1878.

Named as Chairman of the Committee was the late J.R.M. Wilson, F.C.A., of Toronto, retired senior partner of Clarkson, Gordon & Co., Chartered Accountants, and a past-president of the Canadian Institute of Chartered Accountants (C.I.C.A.). The other members of the Committee were: Marcel Bélanger, Q.C., C.A., of Quebec City, a former chairman or member of several Royal Commissions, senior partner of Bélanger, Dallaire, Gagnon & Associés, Chartered Accountants, later elected C.I.C.A. President for 1975-76; and A. Lorne Campbell, Q.C. of Winnipeg, senior partner of Aikins, MacAuley & Thorvaldson, and a past-president of The Canadian Bar Association.

After 17 months of study, conducted both in Canada and abroad, the Independent Review Committee submitted its report to me on March 27, 1975, and it was

## *The Auditor General Act*

tabled in the House of Commons by the Minister of Finance on April 14, 1975. In my 1975 Report, commenting on the work of the Committee, I said:

In my judgement, shared by legislative auditors in Canada and elsewhere, the penetrating analysis and evaluation of the proper role and responsibilities of the Auditor General and the manner in which he should discharge them will serve as a landmark and a guide - nationally and indeed internationally - for many years to come. I was indeed fortunate that men of such eminence in the accountancy and legal professions in Canada were prepared to undertake this arduous and important task in the interests of Parliament and the people of Canada. I fully subscribe to the recommendations contained in the report and am convinced that our appreciation for the work of the Independent Review Committee would be best demonstrated by the early implementation of the Committee's recommendations.

On November 1, 1976, the President of the Treasury Board introduced for first reading in the House of Commons Bill C-20, "An Act respecting the office of the Auditor General of Canada and matters related or incidental thereto", thus marking the culmination of a long series of events leading to this historic objective. This Bill, prepared in consultation with my Office, incorporated most effectively all of the key recommendations of the Independent Review Committee.

One of the most important of the Committee's recommendations was that the Auditor General should in his annual report call attention to any cases where he has observed that "value for money" has not been obtained for public expenditures. In its report, the Committee had this to say on the subject:

The right of the Auditor General to report on this aspect of government expenditures has been challenged, even in recent years. For example, it has been suggested that the intent of the present legislation is to restrict him to reporting on regularity alone, without regard to whether the money was spent economically or efficiently. This narrow interpretation seems inconsistent with our understanding of Parliament's intention when it appropriates funds for a particular purpose. In making such an appropriation, it surely imposes a trust on the administration not only to use the funds for the specified purposes but, as a trustee, to spend the money prudently - that is, with a view to economy and efficiency. In other words, the administration is expected to ensure that value for money will be obtained.

...The administration and the Auditor General share a common concern for the proper use of public funds. The Auditor General should therefore take a great interest in the administration's activities in the area of effectiveness measurement, to the extent that he should monitor the progress of such studies.

The impact of this recommendation and my response to it are described further on pages 33 and 34 of this Conspectus and in Parts 2 and 19 of my 1977 Report. The implementation of "value for money" auditing will have a significant impact on



## *The Auditor General Act*

the activities of the Audit Office and will re-emphasize the accountability of the government of the day to Parliament for the effective management and control of the public purse.

Also included in Bill C-20 were clauses, substantially similar to those in an earlier draft act, implementing the Independent Review Committee's important proposals to ensure the professional and administrative independence of the Auditor General and of his Office. Another significant clause permits the Auditor General to issue a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the issue of his annual report. Finally, an apparently innocuous but vital clause provides that the Auditor General make such examinations and inquiries as he considers necessary to enable him to report as required by the new legislation.

On April 26, 1977, Bill C-20 received second reading in the House of Commons and was referred to the Standing Committee on Public Accounts. Between May 17 and June 14, the Committee held a series of five hearings on the Bill, most of which were attended by the President of the Treasury Board. These hearings were characterized by frank and constructive exchanges between Mr. Andras, representing the Government, and all the members of the Committee. In its First Report to the House of Commons dated June 15, 1977, the Committee reported on its deliberations and proposed a number of amendments to improve the Bill. These were accepted by the House and the Bill received third reading on June 29.

On July 5, I attended a meeting of the Senate Committee on National Finance where the Bill was being considered following second reading in the Senate. Following passage of the Bill in the Senate, it was granted Royal Assent on July 14, 1977, and subsequently proclaimed to be effective August 1, 1977.

The new Auditor General Act represents, in my opinion and that of my colleagues in the Audit Office, an important milestone in the history of the Office and a piece of landmark legislation which is likely to influence government auditing in other jurisdictions, both provincially in Canada and internationally. This clarification of the duties and responsibilities of the Auditor General and of his independence, now incorporated in the laws of Canada, is of significance not only to the Audit Office, but to Parliament and all Canadians. All concerned can expect to benefit from the better means provided to the Auditor General for fulfilling his function as a servant of Parliament. We in the Audit Office are particularly gratified to have been granted by Parliament a new mandate and increased professional and administrative independence just before the beginning of the Office's centennial year.

The Auditor General Act is reproduced as Appendix B to this Conspectus.

## FINANCIAL MANAGEMENT AND CONTROL STUDY

(Parts 2, 7, 8 and 9)

### Government Actions to Improve Financial Management and Control (Part 2)

In my 1976 Annual Report, I wrote of my concern that Parliament - and indeed the Government - had lost, or was close to losing, effective control of the public purse. I said also that the full results of my Office's two-year study of financial management and control across Government had led me inescapably to the opinion that:

*Based on the study of the systems of departments, agencies and Crown corporations audited by the Auditor General, financial management and control in the Government of Canada is grossly inadequate. Furthermore, it is likely to remain so until the Government takes strong, appropriate and effective measures to rectify this critically serious situation.*

As explained in my Report, I reached that opinion after the most careful consideration. It was supported by the findings expressed in my 1975 Report after the first year of the Financial Management and Control Study of departments and agencies, by the results of our monitoring during 1976 of government actions to remedy this unsatisfactory situation, and by the detailed findings of our study of financial management and controls in Crown corporations summarized in 18 recommendations in Part 5 of my 1976 Report.

Having reached this opinion, I took what for me was the unprecedented action of making three key recommendations as a specific organizational solution to the serious problems described in my 1975 and 1976 Reports. These recommendations represented, in highly summarized form, a synthesis of literally hundreds of detailed recommendations arising from our study of financial management and controls in departments, agencies and Crown corporations. Professional staff of my Office and senior representatives of major public accounting firms across Canada recruited under the Executive Interchange Program of the Public Service Commission and under professional service contracts devoted more than 100,000 hours to the study.

I recommended:

- first, the establishment of the position of chief financial officer of the Government, preferably with the title of Comptroller General of Canada;
- second, the appointment to this position of a person with appropriate professional qualifications, with a proven record of outstanding competence and achievement at senior levels of responsibility, and with extensive experience as a senior financial executive in a large-scale organization in either the public or private sector; and

## *Financial Management and Control Study*

- third, the appointment in each department, agency and Crown corporation of a senior financial officer, preferably designated as the Comptroller (in combination, if appropriate, with another designation such as Assistant Deputy Minister in departments or Vice-President in Crown corporations), who would be directly responsible to the deputy head or chief executive officer for all aspects of financial administration within his organization and who would possess the professional and personal qualifications and senior financial executive experience that are commensurate with his important responsibilities.

I went on to say that implementation of these recommendations would lay the essential foundation of a soundly-conceived program for restoring effective control over public funds and assets, and for ensuring probity, prudence and economy in their management. I was confident that the Government, Parliament and, indeed, all taxpaying Canadians would subscribe to these objectives.

Immediately after my 1976 Report was tabled in the House of Commons on November 22, 1976, the Honourable Robert Andras, then only recently appointed the President of the Treasury Board, announced the establishment of a Royal Commission of Inquiry on Financial Management and Accountability in the Government of Canada. Appointed to the Commission as Chairman was Mr. Allen T. Lambert, Chairman of the Board of the Toronto Dominion Bank, and as members Mr. Robert Després, President of the University of Quebec, Professor J.E. Hodgetts, of the University of Toronto, and Mr. O.G. Stoner, a senior federal public servant who was then the Deputy Minister of Industry, Trade and Commerce.

Commenting on the Commission's terms of reference, Mr. Andras noted that its mandate would be basically twofold, namely to inquire into and report on the structure, systems and procedures required:

- to ensure that financial management and control exercised at all levels and in all federal departments and agencies meet the highest attainable standards; and
- to establish effective administrative accountability of deputy ministers and heads of Crown agencies to the Government, and, where appropriate, to Parliament.

He went on to state:

The first object of enquiry reflects the extent to which the Government shares the concerns expressed by the Auditor General in his Report to this House for fiscal year 1975-76. The second object of the enquiry reflects the Government's determination that the complex of issues, both technical and political, raised in considering certain specific recommendations of the Auditor General, be clarified or resolved as swiftly and as effectively as possible.

## *Financial Management and Control Study*

In a press interview a few days later, Mr. Lambert said that he had informed the Government that:

The Royal Commission would not be affronted nor its work hampered in any way if any and all of the Auditor General's recommendations, including that for a Comptroller General, were implemented immediately.

Shortly after Mr. Andras announced the appointment of the Royal Commission, he and I began a series of meetings which were to extend over several months during which we discussed in detail the work that lay behind, and the reasons for, the three key recommendations which appeared in my 1976 Report. As a result, each of us came to understand better the other's perspective on the serious deficiencies in financial management and control within the Government.

I was pleased to note the following statement, a positive response to one of my three key recommendations, which was made by the President of the Treasury Board in a House of Commons debate on December 9, 1976:

There are about 1,800 financial officers in the public service of Canada, and indeed the Treasury Board is very much in agreement with the Auditor General that it is not enough. Too many financial management and control operations are entrusted to clerical people and people whose qualifications are often insufficient. Many departments and agencies have not yet elevated their chief financial officer to the position that he or she must occupy in the management structure in order to maintain or upgrade standards of financial administration. . . . It is my opinion, and our endeavour in almost every case - on some very small boards it might be slightly different - that this person should report not through anybody else but directly, at least, to the deputy minister of the department, the chairman of a board or the president of a Crown corporation.

Responding to a question from the Leader of the Opposition, Mr. Andras went on to say that with respect to departments such persons generally would be at the assistant deputy minister level.

On April 25, 1977, Mr. Andras introduced Bill C-20, the Auditor General Act, for second reading in the House of Commons. (First reading was on November 1, 1976, moved also by Mr. Andras.) On April 25, the Minister made two further announcements of great significance on matters that had been included in my 1976 Report. First, he indicated that new omnibus Crown corporation legislation, including major amendments to Part VIII of the Financial Administration Act, would be presented to the House of Commons after a complete review of Crown corporations then being conducted by the Privy Council Office. Second, he announced the Government's intention to create the position of Comptroller General of Canada carrying the rank and status of a deputy minister and reporting directly to the President of the Treasury Board.



In making his announcement concerning the Comptroller General, Mr. Andras stated:

I am pleased to report, Mr. Speaker, that after a long and detailed series of constructive discussions that I have held personally with the Auditor General, we have been able to clarify the intent of his recommendation and to reach a clear understanding of the duties, responsibilities and reporting relationships for the Comptroller General. I am reassured to find, Mr. Speaker, that there never has been any real difference between the views and opinions of the Auditor General and the Government's declared objective to further strengthen administrative controls and to eliminate inefficiencies and waste...

In general terms, the Comptroller General will be responsible to the Treasury Board for the quality and integrity of the financial control systems and administrative policies and practices in use throughout the federal Public Service. The greater part of the responsibilities of this new office, will comprise those which were assigned to the Financial Administration Branch of the Treasury Board Secretariat, on its creation in March 1976. There will be a special "functional" relationship between the Comptroller General and the chief financial administrators of departments, agencies and corporations, thus enabling the Comptroller to provide necessary guidance, while maintaining the principle of decentralized management adopted as a result of the Glassco Commission's recommendations...

By this action, this appointment, which will entail a major restructuring of the Treasury Board Secretariat, we reiterate our determination to maintain the highest possible standards of control through the creation of an office that could best be described as the "chief financial administrator of the Federal Public Service".

Based on my discussions with the Minister, I am confident that he and the Government fully understand and share my view on the critical importance of selecting a truly outstanding individual as the first Comptroller General of Canada - a position which I rate, as do the senior members of the Canadian accounting profession who serve as a committee of independent advisers to my Office, as the most important and responsible financial executive position in Canada whether in the public or private sector. I have been informed that a comprehensive search has been under way for several months to find candidates for this important position from within government and major commercial and industrial organizations and that it is now (October 1977) in its final stages.

Other positive, constructive and important actions by the Government since the tabling of my 1976 Report, some of which will be referred to in subsequent paragraphs of this Part and all of which have significant impact on financial control, include:

- the announcement on December 16, 1976, by the President of the Treasury Board of new Government policy and guidelines concerning the commercial practices of Crown corporations;

## *Financial Management and Control Study*

- the enactment by Parliament of the new Auditor General Act and its proclamation by the Governor General effective August 1, 1977;
- the granting by Parliament on the advice of the Government of a significant increase in resources to the Audit Office through Main Estimates for 1976-1977; and
- the release on August 18, 1977, by the President of the Privy Council of a paper setting out Government Proposals on the Control, Direction and Accountability of Crown Corporations.

Taken together, these actions by the Government and Parliament comprise, in the phraseology I used in my 1976 Report, "strong, appropriate and effective measures" to achieve ultimately a satisfactory system of financial management and control within the Federal Government and the restoration to Parliament of an appropriate degree of control over the public purse. Much careful planning, some skillful marshalling of capable professional resources and plenty of hard work lie ahead in order to reach this goal. But, most importantly, the direction has been reversed and a start - a good start - has been made. At this time (October 1977) the most significant matter yet to be dealt with is the selection and appointment of a truly outstanding individual as the first Comptroller General of Canada. The person selected faces an exceedingly challenging task. He will need the full support of his Minister, the President of the Treasury Board, of the Government, and of his colleagues, the deputy heads and chief executive officers of the various departments, agencies and Crown corporations. My colleagues in the Audit Office and I offer the Comptroller General our complete co-operation.

### **Government Proposals for the Direction, Control and Accountability of Crown Corporations (Part 9)**

Part 5 of my 1976 Report summarized the results of our analysis of the financial relationships that Parliament and the Government have with Crown corporations, and it highlighted significant weaknesses concerning internal financial management and control activities common to a number of Crown corporations studied. Eighteen main recommendations of government-wide significance were presented. The overall conclusion of our study of financial management and controls in Crown corporations was as follows:

*In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, co-ordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually non-existent.*

Both our government-wide recommendations and the more specific recommendations on individual Crown corporations were designed to provide Parliament and the Government with assurance that the activities of those Crown corporations that are funded in whole or in part out of the public purse are under effective financial control.

## *Financial Management and Control Study*

On August 18, 1977, the President of the Privy Council, following a study conducted by the Privy Council Office, released a document entitled *Crown Corporations - Direction, Control, Accountability - Government of Canada's Proposals*. The introduction to these Proposals states that:

The Government has decided to publish this Paper at this time in order to encourage public discussion and comment and allow the Government to hear and consider the comments of the Royal Commission on Financial Management and Accountability, the Auditor General, the interested public and, of course, the Crown corporations themselves, prior to introduction of an omnibus Crown Corporations Bill in Parliament.

A copy of this document was sent to me by the Prime Minister on August 17, inviting my observations and comments on the various Proposals.

I was pleased to have had the opportunity to comment on the Government's Proposals. In October 1977, I wrote to the Prime Minister and attached to my letter a memorandum analysing the impact of the Proposals on each of the 18 recommendations contained in Part 5 of my 1976 Report. This letter and memorandum are reproduced in Part 9 of the current Report.

Briefly, in my letter, I stated that in my opinion the Proposals provide clear and welcome evidence of the Government's desire to correct the deficiencies identified in the study of financial management and controls of Crown corporations conducted by my Office. I also pointed out, however, that a complete assessment of the Proposals would not be possible until my Office had the opportunity to review:

- revised schedules to the Financial Administration Act identifying the government-owned or controlled corporations which are to be considered Crown corporations; and
- the Position Paper which the Proposals indicate will be presented to the Royal Commission on Financial Management and Accountability to explain the administrative systems and procedures that should be put in place to fulfill the purposes of the Proposals and the related new Crown corporations legislation.

Also, I recommended that further consideration be given to defining the responsibilities of Crown corporation auditors and that account be taken of the July 7, 1977, Report of the Standing Committee on Public Accounts to the House of Commons, which contained a number of significant recommendations affecting Crown corporations.

Concerning the audits of those Crown corporations of which the Auditor General has been appointed auditor, I intend to apply the same audit standards and to discharge the same reporting mandate in terms of scope as apply to all other Government entities dependent in whole or in part on the public purse; these requirements are defined in the Auditor General Act. No doubt this would apply

as well to private sector auditors appointed as auditors of Crown corporations or government-owned or controlled corporations partially or wholly dependent on funds provided by Parliament for their operation. However, it would seem desirable that this be made clear in new legislation.

For government-owned and controlled corporations that are commercially viable, financial criteria similar to those used in the private sector may be adequate to evaluate the overall quality of performance. Regardless of other financial criteria, however, in the evolving emphasis on accountability a convincing case can be made, in my opinion, for the application of consistent audit guidelines, standards and reporting for all entities in which public funds are involved and the new Auditor General Act charts a clear course in this matter.

### **Completion of the Financial Management and Control Study (Parts 7 and 8)**

The Financial Management and Control Study, initiated in May 1974, evaluated the adequacy of financial management and control in the departments, agencies and Crown corporations my Office audits. During the current year, reviews were carried out in the remaining entities identified in the original terms of reference, concluding the initial round of studies of financial management and control practices begun in 1974. Over the last three years, 82 individual reports aggregating over 3,000 pages have been issued on detailed studies conducted in 50 departments and agencies, 28 Crown corporations, two corporations not scheduled in the Financial Administration Act and the Governments of the Yukon and Northwest Territories.

The current year's studies, reported in Part 7 and Appendix D of my Report, indicate a number of significant deficiencies in financial management and control, similar to those disclosed in previous years. Considering the similarity of the financial functions of most departments and agencies, it seems reasonable to have expected that the senior financial officers of those studied this year would have: (1) reviewed the observations which were included in my 1975 Report, and the 1976 and 1977 Proceedings of the Public Accounts Committee relating to the results of the Study; (2) made a comparison of the findings and recommendations and the actions taken with the financial management and control practices within their own organizations; and (3) initiated action to correct deficiencies before we began our current studies. Unfortunately, there has been little evidence of such initiative on the part of the senior financial administrators in most of the departments and agencies covered this year.

Part 8 of my Report itemizes and comments on corrective actions taken or planned to the end of August of this year in response to the 34 main recommendations of government-wide significance we made as a result of our review of financial management and control practices in departments and agencies of the Government during 1975. Although it is not yet possible to assure Parliament that the actions taken are sufficient to remedy the problems we identified, it is evident there is a significantly increased awareness of and agreement on the need to improve financial management and control in the Government.



## *Financial Management and Control Study*

In terms of significant visible changes to rectify major internal control weaknesses, progress has not been spectacular. And, given the detailed information already developed and made available through the Financial Management and Control Study, perhaps more effort has been applied to further studies and the formation of interdepartmental committees and less to prompt actions to correct identified major deficiencies than might seem warranted. But, as pointed out in my 1975 and 1976 Reports, this is probably symptomatic of organizational and procedural weakness in financial management and control that seems to have been widespread throughout the Government for some considerable time. Here lies the challenge for the Comptroller General to provide action-oriented leadership.

In my 1975 Report, I recommended that a comprehensive study be made with a view to revamping the form of the Estimates so that the information they contain would be more meaningful and useful to Parliament and so that the approved Estimates would be the cornerstone for a fully effective government expenditure control system straight through to the lowest organizational unit to which responsibility accounting and direct costing can be applied effectively.

Although this recommendation was strongly supported by the members of the Public Accounts Committee and agreed to in principle by Treasury Board officials, either for lack of resources or for other undisclosed reasons there has been no visible action to date. I have been told recently by a senior government official that there is some uncertainty as to the precise nature of the improvements proposed. To clarify the objectives and thereby to encourage action, I have initiated a demonstration project using wherever possible information that is now available within departments. When the results are available it is hoped they will be helpful in expediting improvements in the form of the Estimates.

In my 1975 Report, based on the results of the findings of the first year of the Financial Management and Control Study, I reported that the system of internal audit throughout the Government needed substantial improvement if it were to be made an effective and reliable instrument of financial control. The Financial Administration Branch of the Treasury Board Secretariat undertook to study this matter and recently released an exposure draft of a new manual entitled - Standards for Internal Financial Audit in the Government of Canada. In the process of developing this exposure draft, the Secretariat has created an increased awareness of the importance of internal financial audit throughout the Government.

My Office has a twofold interest in the auditing activities being conducted within the Federal Government. First, with our new formal mandate under the Auditor General Act to observe whether expenditures are made with due regard for economy and efficiency and whether satisfactory procedures are in place to evaluate program effectiveness - in short, whether value is being obtained for money spent - it is incumbent on us to ascertain the nature, extent and effectiveness of the work being done not only by groups involved in internal financial audit but also by groups conducting "operational audits", "management audits" or "cost effectiveness audits". Second, the work performed by all these groups is a factor we must consider in determining the nature, timing, and extent

## *Financial Management and Control Study*

of our own auditing procedures. Accordingly, I recently initiated a review for the purpose of assessing whether there is good "value for money" being obtained in the whole area of auditing within the Federal Government including my own Office, whether there is duplication or overlapping and, if so, whether it can be reduced or eliminated by modifications in existing audit programs.

## COMPUTER AND INFORMATION SYSTEMS EVALUATION STUDY

### (Parts 3 to 6)

The Computer and Information Systems Evaluation (CAISE) Study comprised an in-depth review and evaluation of controls pertaining to electronic data processing (EDP) in the Federal Government. This Study, announced in my 1976 Report, supplements the Financial Management and Control Study conducted over the last three years which concentrated largely on the overall effectiveness of financial management and control systems within the Federal Government and did not attempt to deal specifically with the computerized aspects of the systems, or with the Government's management of EDP.

The CAISE Study was carried out by 40 auditors and EDP specialists recruited from accounting and consulting firms in Canada under the Executive Interchange Program of the Public Service Commission, or under professional service contracts, and 25 professional staff members of the Audit Office.

Broadly viewed, the CAISE Study dealt with two distinct areas: first, an assessment of management control over EDP resources and related expenditures; and, second, an evaluation of controls over financial data processed by computers.

Parts 3, 4, and 5 of my Report contain the observations and recommendations of government-wide significance arising from the CAISE Study. Part 6 contains the findings resulting from our review of financial controls in nine major computer-based systems. The overall conclusions of the Study, as outlined in Part 3, are as follows:

- **Management Control Over Electronic Data Processing Resources.**  
*Significant improvements are required and can be made in the process by which EDP resources in the Government are managed and controlled both by departments, which have primary responsibility for the management of these resources, and by the Treasury Board Secretariat, which has the government-wide responsibility for monitoring and co-ordinating the use of these resources.*
- **Controls Over Financial Information Processed by Computers.**  
*Controls over certain of the computerized systems reviewed, which process and account for many billions of dollars of public funds, are inadequate to ensure the accuracy, completeness and proper authorization of the financial information being processed:*
  - *in most of the departments reviewed, sufficient attention has not been paid to implementing sound financial accounting controls over the computerized systems; and*

## Computer and Information Systems Evaluation Study

- *the Treasury Board has not established minimum control standards and procedures specifically applicable to financial information processed by computer systems, and the evaluation of financial controls in these systems by departmental internal audit groups and the Treasury Board Secretariat has been inadequate to ensure the existence of proper controls.*

The Study was conducted under the direction of Ruben J. Rosen, C.A., a partner of Touche Ross & Co., on loan to the Office under the Executive Interchange Program. Associated with him in this responsibility was a Steering Committee comprising the following partners of participating firms and members of our senior management group:

Donald A. Brown, C.A.	Coopers & Lybrand
John Callum, C.A.	Clarkson, Gordon & Co.
Colin Campbell, C.A.	Touche Ross & Co.
Keith Dorricott, F.C.A.	Deloitte, Haskins & Sells
Ronald G. Gage, F.C.A.	Clarkson, Gordon & Co.
Raymond H. Healey, P. Eng., C.A.	Thorne Riddell & Co.
Robert D. Humfrey, R.I.A.	Peat, Marwick and Partners
D. Larry Meyers, P. Eng., C.A.	Office of the Auditor General
Erik Peters, C.A.	Office of the Auditor General
Larry W. Shick, P. Eng.	Price Waterhouse Associates

Mr. Rosen and the members of this Steering Committee have reported to me that they unanimously support the overall conclusions of the Study which are set out above.

In its review of the Benefit and Overpayment System of the Unemployment Insurance Commission, reported in Part 6 of my Report, the CAISE Study described serious control weaknesses in the System that can expose the Commission to the payment of benefits through error or fraud. Also, the Commission itself had detected a large number of these types of payments through certain of its control functions. Under these circumstances, I considered it necessary, before giving my opinion on the Commission's financial statements for the year ended December 31, 1976, to obtain additional specialized professional assistance to estimate, through scientifically designed testing procedures and within reasonable limits of materiality, the extent of undetected overpayments of benefits and the significance of the control weaknesses described in the CAISE Study.

The results of this additional investigation were such that I found it necessary to include in my report to the Minister of Employment and Immigration on the financial statements of the Commission a matter that in my opinion should be brought to the attention of Parliament, namely the need for the Commission to improve controls over the payment of initial and continuing benefits to claimants.



## SPECIAL AUDITS AND INQUIRIES

### (Parts 10 to 12)

The Special Audits and Inquiries Branch of the Audit Office initiates and conducts studies that are broader in scope than normal day-to-day audit activities. In-house staff resources are supplemented as required, by private sector or government specialists or by professionals in other disciplines. Although separate terms of reference are established for each project, the main focus in each is on the adequacy of existing financial management and control practices in specific areas.

In 1976-77, the Special Audits and Inquiries Branch conducted studies in five areas of government operations:

- Oil Import Compensation Program
- Receipt and deposit of public money
- Use of statistical data in determining certain government expenditures
- Travel and relocation expenses
- Grants and contributions

My 1977 Report presents the findings of these studies and also observations on progress that has been made in three additional areas studied and reported on in the previous year:

- Office accommodation
- Internal controls in payroll systems
- Manufacturers' sales tax

The study of grants and contributions is a multi-year project that will eventually cover activities in approximately 80 programs in all departments and agencies. From 1977-78 onwards, the review will be integrated with regular audit operations of my Office.

During the last year, the Special Audits and Inquiries Branch initiated a study of the financial management and control of federal government contracts. The findings of this study will be presented in my 1978 Report.

Seven of the eight studies reported on this year were initiated by the Audit Office. The exception is the inquiry into the Oil Import Compensation Program, which was undertaken at the request of the Governor in Council.

Details of the work of the Special Audits and Inquiries Branch in 1976-77, along with our recommendations for remedying particular deficiencies, are contained in parts 10 to 12 of my Report. Here we highlight the findings of the studies.

### **Oil Import Compensation Program (Part 10)**

The Oil Import Compensation Program was implemented in early 1974 to cushion the Canadian economy from the impact of rapid increases in the price of foreign crude oil used in Canada. The Program compensates importers of crude oil and petroleum products for specified cost increases, principally taxation and participation costs, imposed by oil-producing countries. To be eligible for compensation, importers are required to maintain wholesale prices of imported petroleum products or products obtained from compensated crude oil at levels established under Anti-Inflation Board price and profit guidelines. The Program is administered by the Energy Supplies Allocation Board.

My 1976 Report noted that excessive freight compensation of approximately \$5 million had been paid to importers who transhipped cargoes en route to Canada. Subsequent calculations have reduced this figure to \$3.8 million. The Energy Supplies Allocation Board has initiated steps to recover the overpayment.

The Energy Supplies Allocation Board recognizes the need for an audit of all compensation claims. Our review of claims and related audit reports disclosed that less than 3% of the total compensation of \$945 million paid and charged to 1976-77 had been audited. Also, reports have yet to be received on approximately \$858 million in payments made in the two previous years.

In our opinion, subject to the audit of the compensation payments referred to in the preceding paragraph disclosing no significant discrepancies, and subject to the comment above concerning excessive freight compensation for cargoes transhipped en route to Canada, payments to March 31, 1977, have been properly processed and are in conformity with the legislation, regulations and guidelines.

With respect to the audit of price restraint, we are satisfied that price levels during the period September 1974 to December 31, 1976, did not exceed those prevailing in January 1974, adjusted for allowable cost increases. The Energy Supplies Allocation Board is continuing to supervise the monitoring of compliance with Anti-Inflation Board guidelines on the part of the oil industry.

### **Receipt and Deposit of Public Money (Part 10)**

During 1975-76, a review was carried out of practices related to the receipt and deposit of public money in nine departments. The study showed that, in general, practices did not adequately control cash received, did not comply with applicable Treasury Board regulations, and resulted in delays in depositing receipts. Weaknesses in controls over the establishment and operation of transfer accounts and deposit facilities increased the risk of loss or misappropriation of public funds and further delayed transmittal of receipts to the Bank of Canada.

In 1976-77, we extended the study to another 16 government departments. Our audit disclosed weaknesses similar to those reported in the previous year and reinforced the recommendations contained in my 1976 Report.

## **Use of Statistical Data in Determining Certain Government Expenditures (Part 10)**

The Financial Management and Control Study revealed that a significant proportion of Federal Government expenditures is based on statistical data produced by Statistics Canada and other departments. During the year, the Audit Office conducted a general review of the use of statistical data for this purpose. Our examination disclosed that there were few controls to ensure that data were appropriate. In some cases they were ill-suited to provide a basis for calculating expenditures.

In particular, biases were detected in the data employed to calculate fiscal equalization payments to the provinces; inequities occurred in the payment of extended benefits to claimants of unemployment insurance; a variety of methods and of data sources was used to produce population statistics; and departments were found to be using the Consumer Price Index for purposes for which it was not intended and for which it may be unsuitable. Our findings led to the conclusion that statistical data designed for other specific uses are being applied extensively in the calculation of government expenditures, and that there is a need to evaluate the appropriateness of such applications. It is recommended that a comprehensive review on this subject be initiated by the Treasury Board Secretariat.

## **Travel and Relocation Expenses (Part 11)**

In 1975-76, the Audit Office began a study of travel and relocation expenses aimed at assessing the extent to which departments and agencies comply with Treasury Board regulations, directives and guidelines; the effectiveness of Treasury Board and departmental controls in ensuring efficient use of funds allocated to these purposes; and the adequacy of the disclosure of such expenses in the Public Accounts. A review of six major departments indicated that the Treasury Board regulations, directives and guidelines were either inconsistently applied or substantially ignored, and there appeared to be little or no effort to ensure the most efficient use of travel funds. My 1976 Report presented detailed recommendations outlining actions that should be taken to remedy existing deficiencies.

In 1976-77, we examined travel and relocation expenses in another 19 government departments. The review disclosed weaknesses similar to those reported in the previous year.

On April 1, 1977, the Treasury Board issued revisions to its Directives respecting travel and relocation, and it is expected that implementation of the regulations will improve control over the use of funds for these purposes.

In addition to the departmental review, we extended the study to include travel and relocation expenses in eight Crown corporations, foreign travel expenses, and the operations of the Central Travel Service. Again our examinations were focused on compliance with regulations, directives and guidelines; the effectiveness of such controls; and, in the case of the Central Travel Service, the adequacy of financial controls governing activities related to that agency.

In the eight Crown corporations, there was inadequate control of travel advances and of extended travel expenditures. Economies were not sought or required for transportation and accommodation expenses; in addition, there were substantial differences between corporations in allowances paid for meals and incidentals. Policy on allowable relocation expenses varied, and in all corporations there were weaknesses in internal financial controls applied to travel and relocation expenditures. My 1977 Report contains specific recommendations designed to remedy these deficiencies.

The Foreign Service Directives issued by the Department of External Affairs are intended to control expenditures associated with foreign travel. Inadequacies were found in the accounting for travel advances, the substantiation of travel claims, and the procedures governing allowances paid for accommodation over extended periods and for meal expenses on relocation.

The Central Travel Service is an agency with responsibility for arranging transportation and accommodation for government departments and agencies, negotiating special rates for government employees, and verifying and paying government transportation accounts. Weaknesses in control exist in arrangements for providing reservation and ticket services; in billing systems and payment procedures of the Central Travel Service and user departments and agencies; and in procedures for authorizing the use of government travel services.

### **Grants and Contributions (Part 12)**

The study of grants and contributions is concerned with the adequacy of financial management and control over such expenditures in all government departments and agencies for which the Auditor General has audit responsibility. A general report on multi-departmental or government-wide issues that have emerged in our examinations since 1975-76 is presented in Part 12 of my Report. This is followed by condensed reports that highlight points of interest and observations on grant and contribution programs in the following departments and agencies audited during 1976-77:

- Department of Energy, Mines and Resources
- Department of Employment and Immigration
- Department of the Secretary of State
- The Canada Council
- National Museums of Canada
- National Research Council of Canada

Here the observations and recommendations of the general report are summarized.



## *Special Audits and Inquiries*

**Government-Wide Issues.** During our two-year study we noted serious control deficiencies in commitment, spending and payment procedures, and significant weaknesses in other areas. In particular, the requirements for the exercise of spending and payment authorities for grants and contributions have either been completely ignored by departments and agencies or only partly met. Also, there is a lack of accountability by recipients of contributions and some departments are not enforcing proper procedures to ensure that accountability requirements, where they exist, are met on a timely basis.

The study revealed widespread inconsistencies in the classification of "grants" and "contributions". Moreover, confusion occurs because the terms often are used interchangeably. For certain programs no criteria have been approved by the Treasury Board; some contributions are not supported by an official agreement; and enforcement of the terms and conditions of agreements which do exist is inadequate. In addition, to prevent lapsing of appropriations, some departments made advances at the end of the fiscal year in excess of the immediate requirements of recipients.

For the fiscal year 1977-78, a total of \$7,700 million has been allocated to grants and contributions, exclusive of transfer payments to the provinces and payments for unemployment insurance and income security. The magnitude of this amount emphasizes the need for strict internal financial control, sound administrative procedures, and comprehensive directives and guidelines on the management of funds.

**Disclosure in the Estimates.** The wording used in the Estimates to describe contributions is often too general to inform Members of Parliament and others of the particular purposes for which funds are requested. In some instances, the same wording is used for programs with different objectives; and in some departments, programs have such broad characteristics that any project could comply with the criteria. Applicants might obtain contributions for a specific purpose through two different programs in one department or from two different departments. Since departments do not usually produce lists of contribution recipients, there is a risk of duplicate funding of projects or organizations.

**Confusion between grants and contributions.** The study revealed widespread inconsistencies in the classification of grants and contributions. There were frequent changes in classification of items in these two categories, usually from contributions to grants.

The terms "grants" and "contributions" are used interchangeably in descriptions of projects, project evaluations, and letters notifying recipients of awards, and also in submissions to the Treasury Board and regulations approved by Order in Council. The confusion is similarly apparent in the use of the word "grants" in titles given to some contribution programs. Such inconsistencies may mislead the donor department and the recipient, and impede the implementation of effective controls.

**Capital grants and contributions.** Projects of a capital nature are funded through both grants and contributions and may involve payments of several million dollars.

## *Special Audits and Inquiries*

In some instances of capital grant funding, conditions of accountability are imposed upon recipients. Although this practice is appropriate in the interest of financial control, grants, as defined in the Main Estimates are not subject to accountability. Financial assistance of a capital nature should be classified and administered as contributions.

Deficiencies were noted in the information submitted in support of requests for payment of some capital projects financed by contributions. Also, in certain cases, payments were made in amounts larger than originally approved without validation of declared increases in costs.

In certain instances applicants for capital project funding were not required to provide evidence that they had obtained competitive bids before construction. Furthermore, in evaluating proposals expert advice was not always sought on technical aspects of capital projects.

**Program criteria, terms and conditions.** For grants and contributions that may be awarded to classes or groups of recipients, the department or agency is required to obtain Treasury Board approval of terms and conditions of awards and payments. For certain programs, no criteria have been approved, and program officers use terms and conditions applicable to similar programs. Where programs are subject to the provisions of an Order in Council, these provisions are generally too broad to permit adequate control of expenditures.

**Contribution applications and agreements.** The systems that have been established for analysis, evaluation, and approval of applications for contributions are generally well defined. However, there is a general lack of adequate documentation of decisions made during these processes to ensure compliance with established procedures.

Agreements governing approved contributions are deficient in several respects. In some cases, the agreement is not explicit and important conditions are omitted. Certain contributions are not supported by an official agreement. Enforcement of the terms and conditions of agreements also is inadequate. Many departments and agencies make payments on request whether or not the recipient has met the conditions of the agreement.

**Federal-provincial agreements.** In several departments and agencies, there are federal-provincial agreements applying to grants and contributions. A number of weaknesses were identified in existing agreements.

Some agreements are out of date, imprecise, or incomplete for such matters as audit responsibilities and the maximum amount of federal contributions. In some cases, agreements are signed under programs for which terms and conditions have not been approved by the Treasury Board.

Claims for payment by provinces are received at irregular intervals and sometimes two or three years after expenditures are incurred. Where interim payments are made to the provinces based on estimated expenditures, delays in submitting actual cost statements can lead to temporary financing in excess of provincial requirements and further delays in the payment of refunds to the Federal Government.

## *Special Audits and Inquiries*

**Monitoring and evaluation.** Procedures for monitoring and evaluating expenditures on grants and contributions exist in most departments and agencies, but they are not always applied in a thorough and consistent manner. For certain programs, the lack of effective monitoring controls or the absence of documented results of the evaluation process can lead to continued support of projects that are being improperly managed.

**Internal financial controls.** The study disclosed serious weaknesses in internal financial controls in most organizations examined. In general, departments and agencies did not delegate financial signing authority for grants and contributions, as required under different sections of the Financial Administration Act, or hold recipients accountable for the use of funds. Specific areas of concern included the following:

- *Commitment authority.* Commitment control under Section 25 of the Financial Administration Act was not adequately or consistently applied in most departments and agencies.
- *Spending and payment authorities.* The requirements for the exercise of spending and payment authorities have either been completely ignored or only partly met. In certain departments and agencies, signing authorities were exercised without prior delegation. Cheque requisitions were frequently signed when there was no specimen signature on file to verify the authenticity of signing authority, or spending and payment authorities were exercised by the same person. Specimen signature cards, when they were available, were often incomplete.
- *Payments, advances and account verification.* Grants are usually paid in one or more instalments. Contribution payments most often take the form of a series of advances followed by a final adjusted payment. Periodic advances were made without satisfactory accounting by recipients for previous advances and without adherence to other terms and conditions.

To prevent lapsing of appropriations, some departments made advances at the end of the fiscal year in excess of the immediate requirements of recipients. In one case, substantial funds were paid into a trust account for a project that was deferred.

Statements of costs from recipients on which contribution payments were made did not always provide detail sufficient to give a proper accounting for the use of funds. Departments and agencies also did not carry out adequate account verification procedures before making payments.

- *Audits.* It was found that a very small percentage of contribution payments were audited on site by government audit teams; and often the agreements did not make provision for such an audit. Where audit reports were received by departments and agencies, procedures were lacking to ensure that appropriate follow-up action was taken on auditors' recommendations.

### **Office Accommodation (Part 10)**

In 1975-76, the Audit Office conducted a study of the financial management and control of office accommodation in the Federal Government. Our review of existing directives and guidelines for the provision and allocation of office space indicated that some practices tended to encourage inefficient use of space. My 1976 Report presented a series of recommendations aimed at remedying this situation.

In May 1977, the Treasury Board issued new guidelines covering some aspects of arrangements for office accommodation. Although the existing guidelines do not respond to all the items raised in my 1976 Report, they represent a definite improvement over previous procedures.

### **Internal Controls in Payroll Systems (Part 10)**

In 1976, a government-wide review was undertaken to assess the adequacy of internal controls in payroll systems. These systems cover more than 350,000 employees and involve about \$5,000 million in annual payroll costs (approximately 40% of total government operating expenditures). Our study covered a sample of departments and pay offices of the Department of Supply and Services.

My 1976 Report contained a brief summary of our observations. Among the deficiencies identified were inadequate delegation of the responsibility for authorizing direct input data to the payroll system, lack of proper reviews of payroll charges in departments and a number of internal control weaknesses in the payroll systems operated by the Department of Supply and Services.

During the last year, the Treasury Board and the Department of Supply and Services set up a Pay Study Task Force; and in July 1977, the Treasury Board issued a new policy circular on pay administration, which dealt with a number of the deficiencies reported.

### **Manufacturers' Sales Tax (Part 10)**

The Excise Branch of the Department of National Revenue is responsible for administering the assessment and collection of the manufacturers' sales tax. Our 1975-76 study indicated that the Branch was performing reasonably well within the limits of its available resources, although improvements could be made in audit development, training, and programs, and in technical interpretations. The Excise Branch has taken steps to correct the deficiencies reported, and the Audit Office will monitor the effect of these measures in 1977-78.



## DEPARTMENTAL AND CORPORATE AUDITS

### (Parts 13 to 18)

Departmental and corporate audits carried out by the Audit Office in 1976-77 are described in Parts 13 to 18 of my Report. Parts 13 and 14 present my certificates on the main financial statements of Canada and our observations on these statements. Part 15 contains comments on the financial statements and operations of Crown corporations and other entities, specifically noting cases where I have qualified the audit reports tabled in the House of Commons and giving the reasons for such qualification.

Parts 16 and 17 identify irregularities disclosed during our examinations and other cases that I consider should be brought to the attention of the House of Commons. Part 18 comments on various matters noted in previous Reports which still require corrective action.

### **Observations on the Financial Statements of the Government of Canada (Part 14)**

All certificates to the 1976-77 financial statements of Canada are subject to the comments contained in my Report.

Part 14 contains observations on the financial statements specifically concerned with deficiencies in the presentation of the financial position and the financial operations of the Government of Canada. Many of these observations were commented on in my Reports of previous years. The following items are highlighted as being of particular relevance to an accurate reading of the financial statements:

- Recorded assets and liabilities are overstated by \$2,692 million and \$38 million respectively because of the inclusion of certain balances which are identified as Internal Accounts in the financial statements and designated for deletion in future years. These balances do not meet the Government's stated definitions of assets and liabilities.
- Assets include loans of \$599 million likely to require parliamentary appropriations for write off and loans of \$4,101 million the carrying value of which is questionable. The latter amount includes loans and advances to Crown corporations of \$2,525 million and to developing countries of \$1,215 million.
- Deficits for which parliamentary appropriations are likely to be sought include those of three Crown corporations totalling more than \$350 million.
- The deficit in the Exchange Fund Account at December 31, 1976, of \$125 million will be charged to budgetary expenditure in 1977-78.

## *Departmental and Corporate Audits*

- The allowance of \$546 million for losses on the realization of assets is arbitrary and has not been determined in relation to the valuation of specific assets or classes of assets.
- The financial statements do not reflect any deficiency resulting from actuarial valuation of the Canada Pension Plan Account or the Supplementary Retirement Benefits Account.

A number of significant changes in the presentation of the financial statements were made this year. These changes reflect the implementation, in whole or in part, of several of the recommendations of the Study of the Accounts of Canada which was initiated by the Treasury Board Secretariat and carried out jointly with the Department of Finance and the Department of Supply and Services. When the recommendations of the Study are fully implemented many of the deficiencies noted above will be corrected. Other problems concerning the valuation of loans to other governments and to government-controlled organizations, are being studied by the Government.

### **Qualifications Pertaining to Crown Corporations and Other Entities (Part 15)**

Audit reports prepared and tabled in 1977 were qualified in some instances because I observed deficiencies in accounting practices or in disclosure in financial statements, inconsistencies with the provisions of governing statutes or other matters affecting the fairness of presentation of information in financial statements. The following Crown corporations and other entities are identified as having received qualified reports:

- **Airports Revolving Fund.** Development costs relating to a proposed new airport at Pickering, Ontario were capitalized in the expectation that when the airport is built, these costs will be recoverable from operations. The construction of this airport is now in doubt.
- **Atomic Energy of Canada Limited.** In 1975 and 1976, I drew attention to the excessive carrying values of two prototype nuclear power stations in relation to their estimated realizable value. Two provincial utilities are committed to offer to purchase the stations at prices economically viable to them when the stations have been demonstrated to be a safe and dependable source of power. My report on the Company's accounts for the year ended March 31, 1977, was again qualified because it is not known whether sales proceeds will be sufficient to cover the cost of these stations.
- **Canadian Arsenal Limited.** Fixed assets with an original cost of \$22.6 million, including those purchased with funds provided in the annual parliamentary appropriation, are not recorded as assets on the Company's balance sheet. Consequently, the assets are understated in the financial statements and, because the net loss does not include any charge for the use of these assets, the deficit also is understated.

## *Departmental and Corporate Audits*

Also, in 1976-77, the Company carried out only a partial physical count of its own inventory and failed to count inventory held on behalf of other government departments.

- **Canadian Broadcasting Corporation.** For the last three years, the Corporation has failed to record accrued interest amounting to \$14 million per annum on loans from Canada. The Corporation's financial statements for 1976-77 did not record interest on such loans for the current year or the liability of \$42.2 million for total interest accrued to date.
- **Canadian Commercial Corporation.** The Corporation is a defendant in a legal action claiming damages of more than \$6.8 million relating to termination of a portion of a contract. The outcome of this action could affect the Corporation's financial statements.
- **Defence Production Revolving Fund.** The Fund's balance sheet includes as an asset a loan of \$1.7 million to a supplier to the Canadian Commercial Corporation. There is some doubt that this loan will be collected.

Other assets recorded include progress payments to suppliers and inventories held by others on behalf of the Fund. Accounting records are inadequate to separate the amounts in each case and to confirm some progress payments; also, other inventories were not physically counted at year-end.

- **National Capital Commission.** As reported in 1975 and 1976, again in 1977 the accounts of the Commission recorded certain capital assets at values greater than the amounts to be realized on disposal of these assets.

Also, the Commission has failed to make provision in its financial statements for depreciation of fixed assets that may deteriorate or become obsolete.

- **National Harbours Board.** The Board had not systematically reviewed the estimated lives of fixed assets and therefore could not provide adequate documentation in support of depreciation charges applied against such assets.
- **The St. Lawrence Seaway Authority.** The St. Lawrence Seaway Authority has failed to make provision in its financial statements for depreciation on a major portion of its fixed assets.
- **Supply Revolving Fund.** No physical count was taken of inventory with a value estimated at \$1.9 million in the Fund's financial statements for the year ended March 31, 1977.

## *Departmental and Corporate Audits*

Also, certain amounts shown as deferred revenue should have been included as revenue for the year, with the result that deferred revenue was overstated and retained earnings were correspondingly understated.

- **Teleglobe Canada.** As a participant in the Commonwealth Telecommunications Organization, Teleglobe Canada can recover a portion of the expenses incurred in providing and operating telecommunications facilities. As settlements have been finalized only to March 31, 1969, estimated recoveries and provisional amounts received in settlement have been recorded in the accounts for the subsequent years to date. However, because of the uncertainties as to the probable results of final settlements and the amounts involved, any adjustments arising from final settlements could have a material effect on the Corporation's financial statements.

In addition to the specific cases cited above, certain Crown corporations and other entities failed to accrue the liability for termination benefits to which their employees were entitled.

### **Irregularities, Questionable Practices and Other Cases (Parts 16 and 17)**

Our examinations for 1976-77 disclosed one case where a government agency failed to collect or receive money belonging to Canada:

- The Canadian International Development Agency failed to follow up recovery of insurance proceeds for a shipment of wood pulp valued at \$246,000 that was damaged in transit in June 1975 and was insured by the recipient.

In five instances, appropriations were exceeded or applied to a purpose or in a manner not authorized by Parliament:

- For seven months of the current year, the Government Telecommunications Agency Revolving Fund exceeded the maximum amount of \$2 million in working capital advances to which it was entitled. At one time, the excess reached \$1.9 million.
- In 1975-76, the Department of National Defence overpaid a supplier's invoice by about \$111,000. The supplier informed the Department of the error and subsequently refunded the overpayment, which the Department then improperly credited to its 1976-77 appropriation for use against further expenditures.
- The National Film Board recorded the costs of a program in 1976-77, but failed to include contributions of \$625,000 received from co-sponsors of the program in its statement of operations for the year. By deferring these contributions to the following year, the Board recovered through its parliamentary appropriation an amount to which it was not entitled and which should have lapsed at March 31, 1977.



## *Departmental and Corporate Audits*

- The Department of Regional Economic Expansion improperly charged to its 1976-77 appropriations a payment of \$1.5 million made in April 1977. This payment should have been identified as an expenditure for 1977-78.
- In March 1973, to prevent the amount from lapsing, the Department of the Secretary of State requisitioned a cheque for more than \$2 million for a grant payable to a performing arts organization for expansion and construction of facilities. The cheque was deposited with a trust company, pending approval by the Department of construction plans for the project. The project was subsequently delayed and the funds returned to the Consolidated Revenue Fund in May 1976. The Department did not have authority to pay the grant before approving the construction plans and therefore, acted improperly in requisitioning the cheque and depositing it with a trust company.

During the year, the Audit Office noted six cases in which expenditures had been made without authorization or without being properly vouched or certified:

- Under the Local Initiatives Program, the Department of Manpower and Immigration has issued advance payments to recipients of contributions without obtaining Treasury Board approval for such payments. Also, to avoid the lapsing of funds provided in its appropriation for the Program, the Department has made advances of approximately \$27 million which were substantially in excess of the immediate financial requirements of recipients.
- In April 1977, the Department of Regional Economic Expansion made a final payment of \$1.3 million to a company under a regional development incentive agreement, although the company had not met an essential condition of the agreement - namely, that it must implement an acceptable pollution control program before the final payment would be issued.
- In February 1976, the Department of the Secretary of State was authorized by the Treasury Board to contribute funds to an organization engaged in the promotion, sale and distribution of Canadian books abroad, the amount of the contribution being equal to 50% of the organization's sales in the preceding fiscal year and not exceeding \$300,000. In 1976-77, the Department paid \$300,000 to the organization, although the authorized contribution was \$232,000.
- In 1972, the Treasury Board authorized the Secretary of State to make contributions up to a maximum of \$150,000 per project to individuals, organizations and institutions conducting research and pilot projects related to the development of bilingualism. The Department has interpreted the Treasury Board authority as an annual limitation per project and, over periods of from three to five years, has made payments totalling \$2,205,000 in support of five projects. One project received \$299,000 in one year. In our opinion, \$1,455,000 has been expended without proper authorization.

## *Departmental and Corporate Audits*

- The Solicitor General is authorized to enter into agreements with the provinces to contribute to the cost of prison care for persons sentenced or committed to a federal penitentiary. Payments estimated at \$769,000 that were either not in accordance with or not covered by agreements were made to the provinces in 1975-76 and 1976-77.
- Under the terms of a \$20 million long-term contract, the Department of Transport is to issue progress payments to the contractor as certain defined project milestones are reached. In 1976-77, payments exceeding \$600,000 were made in advance of the milestone completion dates.

As reported in Section 11 of Volume I of the 1976-77 Public Accounts, net losses attributable to fraud, default or mistake of public employees totalled \$240,272 in 1976-77.

In 1973 the Watergate revelations in the United States focused attention on questionable corporate conduct, specifically on payments to the Committee to Re-elect the President. Subsequent public and private sector investigations and further disclosures shifted attention from domestic political payments to foreign political payments, then to other payments made in foreign countries and finally to corporate bribery in the United States.

Canadian concern with governmental and corporate accountability and the auditor's responsibilities has increased considerably partly due to the heightened awareness in the United States and partly due to events in Canada, including the hearings conducted by the Standing Committee on Public Accounts during the last year on the questionable practices of Atomic Energy of Canada Limited and Polysar Limited.

On December 16, 1976, the President of the Treasury Board announced new government policy and guidelines concerning the commercial practices of Crown corporations. In concluding his remarks on that occasion, Mr. Andras stated:

...I wish to emphasize that rigorous ethical standards and dedication to propriety - whether on the part of individuals, corporations, governments or nations - carry with them acceptance of certain practical limitations on action and performance. In other words, what I am really saying today is that, while we Canadians need and want to expand our foreign trade, we are not prepared to sell our goods and services on any terms or at any conditions.

Principles, just as commodities, can be expensive. We Canadians must be fully aware of the price we must pay to live by our principles, to be the kind of people we want to be and to maintain the kind of society we want to have. We do not claim that the Canadian way of doing things makes us any better than other people or other countries. But it is the Canadian way - the way we have chosen for ourselves.

## *Departmental and Corporate Audits*

On February 7, 1977, the Secretary of the Treasury Board issued a circular letter to the deputy heads of departments and heads of agencies emphasizing that the policy and guidelines announced by the Minister in December apply not only to Crown corporations but also to all government departments and agencies.

On July 7, 1977, the Standing Committee on Public Accounts presented to the House of Commons its Second Report, the Polysar Report, which was the culmination of many hearings conducted over several months on the questionable commercial practices of Polysar Limited. These practices had first been reported by my predecessor in a letter to the Prime Minister of Canada dated March 22, 1973.

This report of the Public Accounts Committee does much to make the auditors of publicly funded organizations and enterprises, including of course the Auditor General of Canada, aware of what Parliament expects and has a right to expect from them in carrying out their duties and reporting on the results of their audit examinations. Because of its significance, the full text of the Committee's report has been reprinted as Appendix E of my 1977 Report.

In the light of the new Government policy and guidelines and the recommendations contained in the Public Accounts Committee's Polysar Report, and taking into account also the authoritative pronouncements made by various legislative, regulatory and professional bodies, my Office has modified its audit procedures to reduce the possibility that questionable practices of departments, agencies and Crown corporations might go undetected. Furthermore, we have expanded the scope of letters of representation to refer specifically to the new Government policy and guidelines. Departments, agencies and corporations provide such letters of representation from top management to assure the Auditor General that he has been made aware of all significant matters that should be brought to his attention in connection with his audit examination.

Our audit examinations during the current year identified questionable practices by one Crown corporation, the Canadian Saltfish Corporation, and by one department, the Department of External Affairs. In both cases, the Ministers concerned have been notified and the situations have been reviewed by the appropriate senior officials as well as, in the case of the Canadian Saltfish Corporation, by its Board of Directors. Nothing came to our attention during the course of our examinations which indicated financial impropriety for personal gain by members of the Corporation or the Department. Both organizations have issued clear instructions to discontinue these practices and we shall monitor to ensure compliance. Details are set out below.

- During the 1976-77 fiscal year and in prior years, the Canadian Saltfish Corporation engaged in questionable trade practices that included inflation of sales invoices and payments of rebates in accordance with customers' instructions. In 1976-77, the Corporation artificially increased sales invoices relating to approximately \$8 million of its net sales of \$15.4 million. Related rebates amounted to about \$400,000. Corporate management has assured us that the questionable trade practices are discontinued and we have seen clear instructions to this effect.

## *Departmental and Corporate Audits*

- The Department of External Affairs enters into lease agreements for rentals of property for embassies and staff quarters throughout the world. In some countries, double leases and other unusual leasing arrangements have been used in order to obtain any accommodation or accommodation at reasonable cost. Questionable payments identified in our audit for 1976-77 totalled \$508,000, of which \$330,000 was paid in cash and \$178,000 by cheque. We have been informed that the questionable leasing practices are being discontinued and we have seen clear instructions to this effect.

Seven other cases noted during our examinations have been brought to the attention of the House of Commons:

- In 1974 and 1975, the Canadian Transport Commission made subsidy overpayments totalling \$22 million to the Canadian National Railways. An appropriation will have to be sought to cover the Company's additional deficit resulting from recovery of this overpayment by reduction of 1977 subsidy payments.
- Serious weaknesses exist in the administration of the Fishing Vessel Insurance Plan operated by the Department of the Environment. Also, we noted two insurance payments for which documentation in support of claims was inadequate.
- On the basis of the present rate of contributions and scale of benefits, the assets in the Canada Pension Plan Account and future contributions will not be sufficient to meet future pension obligations. The accumulating aggregate amount of this deficiency has not been actuarially determined or reported.
- During the last year, more than 90,000 square feet of rented office space in Ottawa remained unoccupied for six to 10 months, at an estimated cost of \$400,000.
- The Department of Transport lends surplus used maintenance equipment to municipally owned or operated airports. Such loans are made without proper authorization, and there are no specific agreements listing the equipment and stating terms and conditions of the loans.
- In 1976-77, payments totalling \$503,000 were made in settlement of claims for unused accommodation reserved by the Canadian Habitat Secretariat for delegates and visitors to the United Nations Conference on Human Settlements and the Habitat Forum.
- Our audit of the financial statements of the Unemployment Insurance Commission for the year ended December 31, 1976, disclosed that the Commission has established that it has paid benefits to claimants who were not entitled to them and that in a significant number of instances it has not always adhered completely to its administrative procedures in establishing the continuing eligibility of claimants. On the basis of



a statistical sample of claimants receiving benefits in 1976, we have estimated that overpayments amounted to \$95 million, over and above the \$5 million net loss on overpayments identified through the Commission's control activities.

### **Matters Dealt With in Previous Reports (Part 18)**

The Audit Office encourages prompt action by government departments, agencies and Crown corporations to remedy deficiencies and irregularities detected in the course of our examinations. To this end we maintain constant liaison with the responsible officials and monitor their progress in the implementation of corrective action. Where action has not been taken on matters disclosed in my Annual Reports, we report the circumstances to the House of Commons, together with the reasons given by the officials concerned.

The following matters have been raised in my 1977 Report:

- In my 1976 Report, I drew attention to inadequacies in control over payments by the Department of the Environment to fishermen and processors of fishery products. Payments were not discontinued when the total eligible for assistance was reached and, as a consequence, an additional \$1 million was paid out in assistance to the groundfish industry. Procedures were introduced in 1976-77 to correct the weaknesses noted in the previous year, and action has been taken to recover overpayments of \$194,000 disclosed in the audits of 39 plants.
- In 1976, I reported that the Department of the Environment was paying \$241,400 in annual rental on land for which it had no present use, under a long-term lease expiring in 2045. On May 31, 1976, the land was identified as excess, and negotiations began with the owner concerning acceptable possible uses. During 1976-77, the Department again paid the annual rental of \$241,400. No uses for the property have yet been found.
- My 1976 Report noted that the Department of the Environment had improperly charged against a 1975-76 appropriation a payment of \$463,000 to the Province of Manitoba under an agreement to share equally with the Province the cost of rehabilitating and developing a wildlife sanctuary. The Department has made no further payments under this agreement and has requested that the Province submit either a progress claim or a commitment of imminent expenditures. In the absence of such claim or commitment, action will be taken to recover an amount of \$865,000 representing the unused portion of Canada's contribution to the project.
- In 1976, I referred to various weaknesses identified in the administration of the Fisheries Prices Support Board. Some action has been taken to correct these weaknesses, but certain deficiencies have not yet been remedied. Specifically, although adequate documentation has

## *Departmental and Corporate Audits*

been provided in support of payments for 1976-77, detailed procedures to be followed in making purchases and deficiency payments have not been established. Also, audits of producers' records have not been undertaken to validate their claims for deficiency payments. The Board states that it is in the process of taking action on the identified weaknesses.

- Also in 1976, I noted major deficiencies in the accounting procedures being followed in the administration of the Indian Arts and Crafts Central Marketing Service Revolving Fund. Our audit in 1976-77 again revealed serious deficiencies in accounting practices and also failure to comply with a number of legislative and regulatory requirements. The Department of Indian Affairs and Northern Development and the Treasury Board Secretariat are studying alternative methods of operating the Central Marketing Service.
- Reports since 1967 have noted inadequacies in accounting for appropriation funds and band revenue moneys, the responsibility for the management of which has been transferred to Indian bands by the Department of Indian Affairs and Northern Development. In 1975-76, 555 bands were responsible for managing approximately \$140 million. Our review of 384 audit reports submitted on these funds during 1976-77 disclosed that in 141 cases an opinion had been denied, in 102 opinions were qualified and in 10 no opinion was expressed. Departmental officials have advised us that substantial improvement in the financial operations of Indian bands can be expected only over the long term and that, to this end, the number of band financial advisers has been increased.
- My 1974 Report noted that the Post Office Department was engaged in selling various non-postal items to the public without specific authority to do so. Proposed amendments to the Post Office Act have not yet been introduced in Parliament to remove any ambiguity or doubt that may exist on the matter. The Department has informed us that the delay in obtaining legislation is due mainly to its desire to combine such amendments with other proposed changes which have not been fully resolved.
- In 1976, I drew attention to the lack of a formal agreement covering terms and conditions for the operation of the Newfoundland coastal service, the Prince Edward Island ferry service and the North Sydney-Port aux Basques ferry service, all of which are operated for the Department of Transport by the Canadian National Railways. In the absence of such an agreement, the Department has been unable to verify deficits charged to its appropriation each year. In 1976, operating deficits amounted to \$85.8 million. The Department has advised us that agreements are being drawn up to establish operating terms and conditions, and that a subsidiary company of the Canadian National Railways will be formed by January 1, 1978, to operate the services.

## STUDY OF PROCEDURES IN COST EFFECTIVENESS

### (Parts 2 and 19)

The key recommendation of the Independent Review Committee was that the Auditor General should call attention in his annual reports to any cases where he has observed that value for money has not been obtained for public expenditures. This recommendation is reflected in the new Auditor General Act in Section 7(2) which provides in part that each annual report of the Auditor General to the House of Commons

...shall call attention to ... any cases in which he has observed that...

- (d) money has been expended without due regard to economy or efficiency; or
- (e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

Although the Audit Office, during my term of office as well as the terms of my two predecessors, Mr. Maxwell Henderson and Mr. Watson Sellar, did report to the House of Commons instances that came to attention during regular audit examinations where full value had not been received for payments made by departments, agencies or Crown corporations, the new Act now - for the first time - formally assigns the responsibility for this type of reporting to the Auditor General.

Recognizing the imminence of the introduction of the Auditor General Act and, consequently, the pressing need to prepare my Office for its new responsibility, in September 1976 I initiated the Study of Procedures in Cost Effectiveness with the following objectives:

- to compile information on the "state of the art" of management control systems in the public sector, in terms of economy, efficiency and effectiveness;
- to assess and report on existing procedures for planning, measuring and controlling activities in Canada's public service (in the interests of economy, efficiency and effectiveness); and
- to recommend to the Office of the Auditor General how this new mandate should be exercised in the future.

The Study is directed by Kenneth G. Belbeck, President of the management consulting firm of Stevenson & Kellogg, Ltd., who has been associated with the

## *Study of Procedures in Cost Effectiveness*

Office since September 1, 1976, as Director General - S.P.I.C.E. under the Executive Interchange Program of the Public Service Commission. Working with him are approximately 60 senior professionals assigned to the Study from my Office and recruited from leading management consulting and public accounting firms across Canada.

As the above objectives indicate, the S.P.I.C.E. Study's initial approach was basically research oriented. Until recently, the Study has been examining selected programs within certain departments and agencies of the Government, gathering information and knowledge, developing expertise and identifying the talents and resources required by the Audit Office for the fulfilment of its new mandate.

As provided for in the new Auditor General Act which came into effect on August 1, 1977, the first results of our studies based on the value for money concept will be communicated to the House of Commons in my 1978 Report. To attain this objective, we have recently modified the initial research orientation of the Study and transformed it into an expanded operational program. We are continuing the program of individual examinations in specific areas of Government operations to obtain audit evidence on the quality of management controls. Concurrently, in-depth studies crossing the boundaries of departments and agencies are being initiated to explore issues of a government-wide nature that have emerged from our examinations to date.



## ORGANIZATION AND ACTIVITIES OF THE AUDIT OFFICE

### (Part 19)

#### Organization and Professional Resources

The most significant event affecting the Audit Office during the past year was the official proclamation of the Auditor General Act, effective August 1, 1977. This legislation will have a major influence on the organization and activities of the Office in future years. For the fiscal year 1976-77, however, our work continued to be carried out in accordance with the provisions of Parts VII and VIII of the Financial Administration Act.

During the year, the professional audit staff was organized in four separate groups - Parliament and Central Agencies, Departmental and Corporate Audits, Special Audits and Control Evaluations, and International Audits - each headed by an Executive Director. Concurrently, regional offices were given more responsibility under persons appointed to newly established regional director positions. These changes were designed to assist senior officers in effectively discharging their responsibilities.

The Executive Committee of the Office, comprising the Auditor General, the Deputy Auditor General, the two Assistant Auditors General and the Special Adviser to the Auditor General, has the overall responsibility for the direction, planning and administration of the Office and provides guidance and makes decisions regarding professional issues referred to it by other members of the senior management group.

In 1976-77, a continuing effort was made to establish career opportunities for staff of the Audit Office similar to those in leading public accounting firms. This activity included an internal training program, external continuing education opportunities and an assignment performance review program, which helps to identify professional development requirements.

In September 1977, the Institute of Chartered Accountants of Ontario granted an increase in the number of students who may be registered for employment by the Audit Office in Ottawa. Also during the last year the Ontario Society of Management Accountants and the Ontario Association of Certified General Accountants formally recognized the Audit Office's career development program as acceptable training for staff seeking the RIA or CGA designations. This recognition and expression of confidence in the Office's student development program by the three major professional accounting bodies in Ontario will be of great assistance in recruitment efforts and in furthering the professional objectives of the Office.

Between March 31, 1976 and August 1, 1977, the number of full-time staff employed in the Audit Office increased from 353 to 429. The Office continued to make extensive use of professional resources available from the private sector to supplement the work of the permanent staff and to provide specialized knowledge and experience not required on a full-time basis.

## **Principal Activities**

Activities related to the Financial Management and Control Study, the Study of Procedures in Cost Effectiveness, the Computer and Information Systems Evaluation Study, special audits and inquiries, and departmental and corporate audits have been described in preceding pages of the Conspectus. Important work also was carried out in the following areas:

- The Audit Office continued to provide assistance to the Standing Committee on Public Accounts in its review of my Annual Report.
- Throughout the year, I benefited from the advice of two committees established in 1976: the Independent Advisory Committee on Government Accounting and Auditing Standards, and the Independent Advisory Committee on Financial Management and Control Standards. Both committees provided valuable counsel on important and complex matters concerning procedures and practices of the Audit Office.
- I continued to participate as Canada's representative on the three-member Board of Auditors of the United Nations; and in October 1977, I completed two-year terms as Chairman of both the Board of Auditors and the Panel of External Auditors.
- During the year, representatives from my Office participated in meetings of an Audit Operations Committee, established to help develop and implement generally accepted and consistent auditing standards within the United Nations. The work of this Committee is described more fully in my Report.
- In 1976-77, the Audit Office continued to establish professional policies, practices and procedures, and to develop useful aids in support of its auditing activities. Work continued on the preparation of a comprehensive audit manual. Also during the year a central library service was established, substantially expanding the research facilities of the Office.

A statement of expenditures for the Audit Office in 1976-77 is presented in paragraph 19.20 of my Report. For the fiscal year ended March 31, 1977, the operating expenses of the Office amounted to \$14 million, as compared with \$9.4 million in 1975-76. Salaries and personnel-related costs comprised \$9.7 million or 69% of total operating expenses.

My Reports for 1974-75 and 1975-76 placed considerable emphasis on the recommendations of the Independent Committee for the Review of the Office of the Auditor General. With the proclamation of the Auditor General Act in August of this year, substantially all the recommendations of the Committee requiring legislative action have been incorporated into the laws of Canada. Other recommendations have been implemented through various actions taken by my Office and by the Government.

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March 31, 1977

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## 25-26 ELIZABETH II

## CHAPTER 34

An Act respecting the office of the Auditor General of Canada and matters related or incidental thereto

[Assented to 14th July, 1977]

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

## PART I

## SHORT TITLE

Short title	1. This Part may be cited as the <i>Auditor General Act</i> .	(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.	Re-appointment
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## INTERPRETATION

Definitions	2. In this Act,	(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General.	Vacancy
"Auditor General"	"Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);		
"Crown corporation"	"Crown corporation" has the meaning assigned to that expression by subsection 66(1) of the <i>Financial Administration Act</i> ;	4. (1) The Auditor General shall be paid a salary equal to the salary of the Chief Justice of the Federal Court of Canada, including any additional salary authorized by section 20 of the <i>Judges Act</i> .	Salary
"department"	"department" has the meaning assigned to that term by section 2 of the <i>Financial Administration Act</i> ;	(2) The provisions of the <i>Public Service Superannuation Act</i> , other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the <i>Diplomatic Service (Special) Superannuation Act</i> in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the <i>Public Service Superannuation Act</i> do not apply to him.	Pension benefits
"registrar"	"registrar" means the Bank of Canada and a registrar appointed under Part IV of the <i>Financial Administration Act</i> .		

## AUDITOR GENERAL OF CANADA

Appointment and tenure of office	3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.
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Idem	(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.
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## DUTIES

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund	Examination
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and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

Idem

6. The Auditor General shall examine the several financial statements required by section 55 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

Report to House of Commons

7. (1) The Auditor General shall report annually to the House of Commons

- (a) on the work of his office; and
- (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

- (a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- (b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;
- (c) money has been expended other than for purposes for which it was appropriated by Parliament;
- (d) money has been expended without due regard to economy or efficiency; or
- (e) satisfactory procedures have not been established to measure and report the

effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Submission of report to Speaker and tabling in the House of Commons

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report.

Special report

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 20(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Submission of reports to Speaker and tabling in the House of Commons

9. The Auditor General shall

Idem

- (a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require; and
- (b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*;

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.

Improper retention of public money



## Auditor General Act

Inquiry and  
report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Advisory  
powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.

### ACCESS TO INFORMATION

Access to  
information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of  
officers in  
departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for

the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*.

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Reliance on  
audit reports of  
Crown  
corporations

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Auditor  
General may  
request  
information

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the  
Governor in  
Council

### STAFF OF THE AUDITOR GENERAL

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

Officers, etc.

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in *Appropriation Acts*, contract for professional services.

Contract for  
professional  
services

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*,

Delegation to  
Auditor  
General

other than the powers, duties and functions of the Commission in relation to appeals under sections 21 and 31 of that Act and inquiries under section 32 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office.

Responsibility  
for personnel  
management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 5(1)(e) and section 7 of that Act.

Collective  
agreements

17. Any collective agreement affecting persons employed in the office of the Auditor General entered into before the coming into force of this Act remains in force and binds the Auditor General as employer of such persons until the expiry of that agreement.

Classification  
standards

18. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.

Delegation

19. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 55 of the *Financial Administration Act* and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.

## ESTIMATES

Estimates

20. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.

Appropriation  
allotments

21. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

AUDIT OF THE OFFICE OF THE AUDITOR  
GENERALAudit of office  
of the Auditor  
General

22. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of  
reports and  
tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

## PART II

### CONSEQUENTIAL AND RELATED AMENDMENTS

R.S., c. F-10      **23.** Part VII of the *Financial Administration Act* is repealed.

R.S., c. P-35      **24.** (1) Part I of Schedule I to the *Public Service Staff Relations Act* is amended by deleting therefrom the words "Office of the Auditor General of Canada".

(2) Part II of Schedule I to the *Public Service Staff Relations Act* is amended by adding thereto the words "Office of the Auditor General of Canada".

R.S., c. E-8      **25.** Section 16 of the *Established Programs (Interim Arrangements) Act* is repealed and the following substituted therefor:

Powers of Auditor General      "16. Nothing in this Act shall be construed to restrict the powers of the Auditor General of Canada under the *Auditor General Act*."

1970-71-72, c. 52      **26.** Section 27 of the French version of the *Pilotage Act* is repealed and the following substituted therefor:

Vérificateur général      "27. Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de chaque Administration et en fait rapport au Ministre."

R.S., c. N-22      **27.** Subsection 23(5) of the *Northwest*

*Territories Act* is repealed and the following substituted therefor:

"(5) The Auditor General has, in connection with his examination of the accounts of the Territories, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada." Powers of Auditor General

**28.** Subsection 26(5) of the *Yukon Act* is repealed and the following substituted therefor: R.S., c. Y-2

"(5) The Auditor General has, in connection with his examination of the accounts of the Territory, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada." Powers of Auditor General

**29.** Section 15 of the French version of the *Unemployment Insurance Act, 1971* is repealed and the following substituted therefor: 1970-71-72, c. 48

"15. Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de la Commission et en fait rapport au Ministre." Vérification

**30.** Whenever, in the French version, the expression "auditeur général" appears in any provision of an Act listed in the schedule to this Act, there shall in every case, unless the context otherwise requires, be substituted the expression "vérificateur général". Amendments to French version

## PART III

### COMMENCEMENT

Coming into force      **31.** This Act shall come into force on a day to be fixed by proclamation.

(The Act came into force August 1, 1977)







PARTIE II

MODIFICATIONS CORRELATIVES

S.R., c. F-10 23. La Partie VII de la Loi sur l'administration financière est abrogée.

S.R., c. P-35 24. (1) La Partie I de l'annexe I de la Loi sur les relations de travail dans la Fonction publique est modifiée par la suppression de l'expression «Bureau de l'auditeur général du Canada».

(2) La Partie II de l'annexe I de la Loi sur les relations de travail dans la Fonction publique est modifiée par l'adjonction de l'expression «Bureau du vérificateur général du Canada».

S.R., c. E-8 25. L'article 16 de la Loi sur les programmes établis (Arrangements provisoires) est abrogé et remplacé par ce qui suit:

Pouvoirs du vérificateur général

«16. La présente loi n'apporte aucune restriction aux pouvoirs conférés au vérificateur général du Canada par la Loi sur le

1970-71-72, c. 52

Vérificateur général

«27. Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de chaque Administration et en fait rapport au Ministre.»

S.R., c. N-22 27. Le paragraphe 23(5) de la Loi sur les territoires du Nord-Ouest est abrogé et remplacé par ce qui suit:

«(5) Le vérificateur général détient, relativement à l'examen des comptes des territoires, tous les pouvoirs que la Loi sur le vérificateur général lui attribue à l'égard de l'examen des comptes du Canada.»

S.R., c. Y-2 28. Le paragraphe 26(5) de la Loi sur le Yukon est abrogé et remplacé par ce qui suit:

«(5) Le vérificateur général détient, relativement à l'examen des comptes du territoire, tous les pouvoirs que la Loi sur le vérificateur général lui attribue à l'égard de l'examen des comptes du Canada.»

1970-71-72, c. 48 29. La version française de l'article 15 de la Loi de 1971 sur l'assurance-chômage est abrogée et remplacée par ce qui suit:

«15. Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de la Commission et en fait rapport au Ministre.»

30. Dans la version française des lois Modifications à la version française des lois «vérificateur général» remplace l'expression «auditeur général», sauf indication contraire découlant du contexte.

ENTRÉE EN VIGUEUR

31. La présente loi entre en vigueur à la date fixée par proclamation.

Entrée en vigueur

(La Loi est entrée en vigueur le 1<sup>er</sup> août 1977)

BUDGET DES DÉPENSES

Prévisions budgétaires annuelles des sommes budgétaires

20. (1) Le vérificateur général prépare des prévisions budgétaires annuelles des sommes budgétaires au Parlement pour couvrir les salaires, les indemnités et les dépenses de son bureau pour le prochain exercice financier.

(2) Le vérificateur général, au cas où il Rapport spécial

21. Les dispositions de la Loi sur l'administration financière relatives à la division des crédits en affectations ne s'appliquent pas au bureau du vérificateur général.

Attribution des crédits

VÉRIFICATION DU BUREAU DU VÉRIFICATEUR GÉNÉRAL

22. (1) Le conseil du Trésor nomme un vérificateur compétent chargé d'examiner les recettes et déboursés du bureau du vérificateur général et de communiquer annuellement le résultat de ses examens à la Chambre des communes.

Vérification du bureau du vérificateur général

(2) Les rapports visés au paragraphe (1) sont soumis au président du conseil du Trésor au plus tard le 31 décembre de l'année à laquelle ils se rapportent, ce dernier doit les déposer devant la Chambre des communes, dans les quinze jours de leur réception ou, si la Chambre ne siège pas, dans les quinze premiers jours de la séance suivante.

Soumission et dépôt des rapports

publique confère à celle-ci, à l'exception de celles visées dans ladite loi aux articles 21 et 31 en matière d'appel et à l'article 32 en matière d'enquête.

(4) Le vérificateur général peut suspendre tout employé de son bureau.

Suspension

16. Le vérificateur général est autorisé à assumer les responsabilités et à exercer, en ce qui a trait aux employés de son bureau, les pouvoirs et fonctions conférés au conseil du Trésor par la Loi sur l'administration financière en matière de direction du personnel et notamment la fixation des conditions d'emploi et les relations entre employeur et employés au sens de l'alinéa 5(1e) et de l'article 7 de ladite loi.

Attributions en matière de direction du personnel

17. Toute convention collective touchant le personnel du bureau du vérificateur général, conclue antérieurement à l'entrée en vigueur de la présente loi, continue à s'appliquer jusqu'à expiration et lie le vérificateur général en tant qu'employeur.

Convention collective

18. Le personnel du bureau du vérificateur général peut être soumis à des normes de classification établies conformément aux recommandations de celui-ci.

Normes de classification

19. Le vérificateur général peut désigner, pour signer en son nom les opinions qu'il doit donner et les rapports autres que son rapport annuel sur les états financiers du Canada visés à l'article 55 de la Loi sur l'administration financière et les rapports à la Chambre des communes visés à la présente loi, un haut fonctionnaire de son bureau qui devra, au dessous de sa signature, indiquer son poste et préciser qu'il signe au nom du vérificateur général.

Délégation

Enquête et rapport

11. Le vérificateur général peut, à la demande du gouverneur en conseil et s'il estime que la mission n'entraîne pas ses responsabilités principales, faire une enquête et dresser un rapport sur toute question relative aux affaires financières du Canada ou aux biens publics, ainsi que sur toute personne ou organisation qui a reçu ou sollicité l'aide financière du gouvernement du Canada.

Communication des faits

12. Le vérificateur général peut informer les cadres et employés concernés de la fonction publique du Canada des faits découverts au cours de ses examens et notamment signaler lesdits faits aux cadres et employés affectés aux affaires du conseil du Trésor.

Accès à l'information

13. (1) Sous réserve des dispositions d'une autre loi du Parlement qui se réfèrent expressément au présent paragraphe, le vérificateur général a le droit, à tout moment convenable, de prendre connaissance librement de tout renseignement se rapportant à l'exercice de ses fonctions; à cette fin, il peut exiger que les fonctionnaires fédéraux lui fournissent tous renseignements, rapports et explications dont il a besoin.

Détachement de fonctionnaires ministériels

(2) Le vérificateur général peut, pour remplir plus efficacement ses fonctions, détacher des employés de son bureau auprès de tout ministère. Celui-ci doit leur fournir les locaux et l'équipement nécessaires.

Serment

(3) Le vérificateur général doit exiger de tout employé de son bureau chargé, en vertu de la présente loi, d'examiner les comptes d'un ministère ou d'une corporation de la Couronne, qu'il observe les normes de sécurité applicables aux employés du ministère ou de la corporation et qu'il prête le serment de respecter le secret professionnel, auquel ceux-ci sont astreints.

Enquêtes

(4) Le vérificateur général peut interroger sous serment, toute personne au sujet d'un compte soumis à sa vérification; à cette fin, il peut exercer les pouvoirs conférés aux commissaires par la Partie I de la Loi sur les enquêtes.

14. (1) Par dérogation aux paragraphes (2) et (3), le vérificateur général, dans l'exercice de ses fonctions de vérificateur des comptes du Canada, peut se fier au rapport du vérificateur, régulièrement nommé, d'une corporation de la Couronne ou d'une filiale.

(2) Le vérificateur général peut demander à toute corporation de la Couronne d'obtenir de ses administrateurs, dirigeants, employés, mandataires et vérificateurs anciens ou actuels ou de ceux de ses filiales, les renseignements et éclaircissements dont il estime avoir besoin dans l'exercice de ses fonctions de vérificateur des comptes du Canada et de les lui fournir.

(3) Le vérificateur général, au cas où il estime qu'une corporation de la Couronne n'a pas donné des renseignements et éclaircissements satisfaisants à la suite d'une demande visée au paragraphe (2), peut en faire part au gouverneur en conseil; celui-ci peut alors ordonner aux dirigeants de cette corporation de fournir les renseignements et éclaircissements réclamés par le vérificateur général et de lui permettre de consulter les registres, documents, livres, comptes et pièces justificatives de la corporation et de ses filiales, dont il estime avoir besoin dans l'exercice de ses fonctions de vérificateur des comptes du Canada.

15. (1) Les cadres et employés nécessaires au vérificateur général pour l'exercice de ses fonctions sont nommés conformément à la Loi sur l'emploi dans la Fonction publique.

PERSONNEL DU BUREAU DU VÉRIFICATEUR GÉNÉRAL

(2) Sous réserve des autres lois du Parlement et de leurs règlements d'application, le vérificateur général peut, dans la limite fixée à son bureau par les lois portant affectation de crédits, passer des marchés de services professionnels sans l'approbation du conseil du Trésor.

(3) Sous réserve des modalités fixées par la Commission de la Fonction publique, le vérificateur général peut assumer les responsabilités et exercer les pouvoirs et fonctions que la Loi sur l'emploi dans la Fonction

Délégation au vérificateur général

Marché de services professionnels



à ce titre, il effectue les examens et enquêtes qu'il juge nécessaires pour lui permettre de faire rapport comme l'exige la présente loi.

6. Le vérificateur général examine les différents états financiers qui doivent figurer dans les comptes publics en vertu de l'article 55 de la *Loi sur l'administration financière* et tous autres états que lui soumet le ministre des Finances pour vérification; il indique si les états sont présentés fidèlement et confortables pour l'administration fédérale et selon une méthode compatible avec celle de l'année précédente; il fait éventuellement des réserves.

7. (1) Le vérificateur général prépare à l'intention de la Chambre des communes un rapport annuel dans lequel

a) il fournit des renseignements sur les activités de son bureau; et

b) il indique s'il a reçu, dans l'exercice de ces activités, tous les renseignements et éclaircissements réclamés.

(2) Dans le rapport mentionné au paragraphe (1), le vérificateur général signale tout sujet qui, à son avis, est important et doit être porté à l'attention de la Chambre des communes, notamment les cas où il a constaté que

a) les comptes n'ont pas été tenus d'une manière fidèle et régulière ou des deniers publics n'ont pas fait l'objet d'un compte rendu complet ou n'ont plus été versés, lorsque cela est légalement requis au Fonds du revenu consolidé;

b) les registres essentiels n'ont pas été tenus ou les règles et procédures utilisées ont été insuffisantes pour sauvegarder et contrôler les biens publics, assurer un contrôle efficace des cotisations, du recouvrement et de la répartition régulière du revenu et assurer que les dépenses effectives ont été autorisées;

c) des sommes d'argent ont été dépensées à d'autres fins que celles auxquelles le Parlement les avait affectées;

d) des sommes d'argent ont été dépensées sans égard à l'économie ou à l'efficacité;

e) des procédures satisfaisantes n'ont pas été établies pour mesurer et faire rapport sur l'efficacité des programmes dans les

cas où elles peuvent convenablement et raisonnablement être mises en œuvre.

(3) Le rapport annuel du vérificateur général à la Chambre des communes est soumis à l'Orateur de la Chambre des communes au plus tard le 31 décembre de l'année à laquelle il se rapporte, ce dernier doit le déposer devant la Chambre des communes immédiatement ou, si la Chambre ne siège pas, le premier jour de séance suivante.

8. (1) Le vérificateur général peut adresser un rapport spécial à la Chambre des communes sur toute affaire d'une importance

(2) Les rapports spéciaux du vérificateur général, visés aux paragraphes (1) et 20(2) sont soumis à l'Orateur de la Chambre des communes qui les dépose devant la Chambre des communes immédiatement ou, si la Chambre ne siège pas, le premier jour de séance suivante.

9. Le vérificateur général

a) examine, de la manière qu'il juge appropriée, les comptes et les registres de chaque registraire et procède, à la demande du ministre des Finances, à tout autre examen des opérations d'un registraire; et

b) participe, dans le cas et dans la mesure où il en est requis par le ministre des Finances, à la destruction, lorsqu'elle est autorisée par la *Loi sur l'administration financière*, des titres rachetés, annulés ou des réserves de titres non émis.

Il peut, après accord avec un registraire, assurer conjointement avec celui-ci, la garde et le contrôle des titres annulés et non émis.

10. Le vérificateur général adresse, sans délai, au président du conseil du Trésor un rapport circonstancié sur tous les cas qui, à son avis, constituent une rétention irrégulière de deniers publics.

Rétention irrégulière de deniers publics

Idem

Rapport à la Chambre des communes

Idem

Soumission du rapport à l'Orateur et dépôt devant la Chambre des communes

Soumission des rapports à l'Orateur et dépôt devant la Chambre des communes

Idem

25-26 ELIZABETH II

CHAPITRE 34

Loi concernant le bureau du vérificateur général du Canada et les matières connexes

[Sanctionnée le 14 juillet 1977]

Sa Majesté, sur l'avis et du consentement du Sénat et de la Chambre des communes du Canada, décrète:

PARTIE I

TITRE ABRÉGÉ

1. La présente Partie peut être citée sous le titre: *Loi sur le vérificateur général*.

INTERPRÉTATION

2. Dans la présente loi,

«*corporation de la Couronne*» a le sens que lui donne le paragraphe 66(1) de la *Loi sur l'administration financière*;

«*ministère*» a le sens que lui donne l'article 2 de la *Loi sur l'administration financière*;

«*registraire*» désigne la Banque du Canada et un registraire nommé en vertu de la Partie IV de la *Loi sur l'administration financière*;

«*vérificateur général*» désigne le vérificateur général du Canada nommé en vertu du paragraphe 3(1).

3. (1) Le gouverneur en conseil, par commission sous le grand sceau, nomme un vérificateur compétent appelé le vérificateur général du Canada à titre inamovible pour un mandat de dix ans, sous réserve de révocation par le gouverneur en conseil sur adresse du Sénat et de la Chambre des communes.

LE VÉRIFICATEUR GÉNÉRAL DU CANADA

3. (1) Le gouverneur en conseil, par commission sous le grand sceau, nomme un vérificateur compétent appelé le vérificateur général du Canada à titre inamovible pour un mandat de dix ans, sous réserve de révocation par le gouverneur en conseil sur adresse du Sénat et de la Chambre des communes.

(2) Par dérogation au paragraphe (1), la limite d'âge pour l'exercice des fonctions de vérificateur général est de soixante-cinq ans.

(3) Une personne qui a servi à titre de vérificateur général ne peut être nommée de nouveau à ce poste.

(4) Le gouverneur en conseil peut, en cas Vacance d'absence ou d'empêchement du vérificateur général ou de vacance de son poste, nommer provisoirement une personne pour remplir ses fonctions.

4. (1) Le vérificateur général reçoit un traitement égal à celui du juge en chef de la Cour fédérale du Canada, et incluant tout traitement supplémentaire visé à l'article 20 de la *Loi sur les juges*.

(2) Les dispositions de la *Loi sur la pension dans la Fonction publique*, sauf celles relatives à la durée des fonctions, s'appliquent au vérificateur général; cependant le vérificateur général choisi hors de la Fonction publique peut, par avis écrit adressé au président du conseil du Trésor dans les soixante jours de sa nomination, opter pour la participation au régime de pension prévu à la *Loi sur la pension spéciale du service diplomatique*, auquel cas les dispositions de ladite loi, autres que celles relatives à la durée des fonctions, lui sont applicables, à l'exclusion de la *Loi sur la pension dans la Fonction publique*.

FONCTIONS

5. Le vérificateur général est le vérificateur des comptes du Canada, y compris ceux qui ont trait au Fonds du revenu consolidé et,

C. SUITE DONNÉE AUX RECOMMANDATIONS DU COMITÉ  
INDÉPENDANT DE RÉVISION SUR LES FONCTIONS DU  
VÉRIFICATEUR GÉNÉRAL

D. ÉTUDE DE LA GESTION ET DU CONTRÔLE FINANCIERS  
RAPPORTS AUX MINISTÈRES, ORGANISMES ET  
SOCIÉTÉS DE LA COURONNE

Bibliothèque nationale et Archives publiques  
Commission canadienne des grains  
La Commission de lutte contre l'inflation  
Conseil des Arts du Canada  
Conseil national de recherches du Canada  
Le Ministère d'État aux sciences et à la technologie  
Musées nationaux du Canada  
Office de stabilisation des prix agricoles et  
Office des produits agricoles

La Société des transports du nord, Limitée  
et Grimshaw Trucking and Distributing Ltd.  
Téleglobe Canada

E. RAPPORT DU COMITÉ PERMANENT DES COMPTES  
PUBLICS À LA CHAMBRE DES COMMUNES, LE  
7 JUILLET 1977

F. RAPPORT DU SECRÉTAIRAT DU CONSEIL DU TRÉSOR  
AU COMITÉ PERMANENT DES COMPTES PUBLICS,  
LE 31 MARS 1977

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## Annexe

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243 Pertes par la fraude, la faute ou l'erreur de  
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les dépenses d'exploitation du Bureau étaient de \$14 millions, comparativement à \$9.4 millions en 1975-1976. Les traitements et autres coûts de personnel étaient de \$9.7 millions, soit 69% des dépenses d'exploitation.

Mes rapports de 1974-1975 et de 1975-1976 insistaient beaucoup sur les recommandations du Comité indépendant de révision sur les fonctions du Vérificateur général. Avec la proclamation de la Loi sur le vérificateur général, en août de cette année, à peu près toutes les recommandations du Comité exigeant une mesure législative ont été incorporées aux lois du Canada. D'autres recommandations ont été mises en vigueur par l'intermédiaire de diverses mesures prises par mon Bureau et par le gouvernement.

Entre le 31 mars 1976 et le 1<sup>er</sup> août 1977, le nombre des employés à plein temps du Bureau de la vérification est passé de 353 à 429. Le Bureau a continué de se prévaloir largement des ressources professionnelles du secteur privé pour augmenter l'effectif permanent et s'assurer de connaissances et d'expériences spécialisées qui ne sont pas nécessaires sur une base à plein temps.

## Fonctions principales

Les fonctions reliées à l'étude de la gestion et du contrôle financiers (É.G.C.F.), au Travail de recherche sur l'analyse du coût-efficacité (T.R.A.C.E.), à l'étude portant sur l'évaluation des systèmes d'information (É.S.I.), aux vérifications spéciales et enquêtes et aux vérifications des ministères et des sociétés de la Couronne ont été décrites dans les pages précédentes de l'Aperçu général. Nous avons aussi effectué un travail important dans les secteurs suivants:

- Le Bureau de la vérification a continué à collaborer avec le Comité permanent des comptes publics dans son étude de mon Rapport annuel.
- Durant toute l'année, j'ai tiré avantage des conseils de deux comités établis en 1976: le Comité consultatif indépendant sur les normes de comptabilité et de vérification publiques et le Comité consultatif indépendant sur les normes de gestion et de contrôle financiers. Ces deux comités m'ont fourni des conseils utiles sur des questions importantes et complexes concernant les procédés et les pratiques du Bureau de la vérification.

- J'ai continué à participer, à titre de représentant du Canada, au Comité des commissaires aux comptes des Nations unies composé de trois membres et, en octobre 1977, j'ai terminé des mandats de deux ans à titre de président du Comité des commissaires aux comptes et du Groupe des vérificateurs externes.

- Au cours de l'année, des représentants de mon Bureau ont participé aux réunions d'un Comité des opérations de vérification mis sur pied dans le but d'élaborer et de mettre en vigueur des normes de vérification généralement acceptées et unifiées au sein des Nations unies. Le travail de ce Comité est décrit plus en détail dans mon Rapport.

- En 1976-1977, le Bureau de la vérification a continué à établir des politiques, pratiques et procédés professionnels et à élaborer des auxiliaires utiles à l'appui de ses fonctions de vérification. Il a continué à travailler à la préparation d'un manuel de la vérification d'une grande portée. Aussi, au cours de l'année, un service central de bibliothèque a été établi, ce qui a amélioré considérablement les conditions de recherches du Bureau.

Le paragraphe 19.20 de mon Rapport présente un état des dépenses du Bureau de la vérification en 1976-1977. Pour l'année financière terminée le 31 mars 1977,



## (Partie 19)

## Organisation et ressources professionnelles

L'événement le plus marquant de l'année écoulée pour le Bureau de la vérification a été la proclamation officielle de la Loi sur le vérificateur général qui est entrée en vigueur le 1<sup>er</sup> août 1977. Cette Loi aura une influence déterminante sur l'organisation et les fonctions du Bureau au cours des années à venir. Cependant, au cours de l'année financière 1976-1977, nous avons continué à effectuer notre travail d'après les dispositions des Parties VII et VIII de la Loi sur l'administration financière.

Au cours de l'année, le personnel professionnel de la vérification a été réparti en quatre groupes distincts - Parlement et Organismes centraux, Vérification des ministères et des sociétés de la Couronne, Vérifications spéciales et Évaluations de contrôle et Vérification des organismes internationaux. Chaque groupe était dirigé par un directeur administratif. Les bureaux régionaux se sont vu attribuer plus de responsabilités sous la direction de personnes nommées aux postes de directeurs régionaux nouvellement établis. Ces changements devaient permettre aux hauts fonctionnaires de mieux s'acquitter de leurs responsabilités.

Le Conseil de direction du Bureau, formé du Vérificateur général, du Sous-vérificateur général, des deux Vérificateurs généraux adjoints et du conseiller spécial auprès du Vérificateur général, assume la responsabilité générale de la direction, de la planification et de l'administration du Bureau et donne des orientations ou prend des décisions sur des questions d'ordre professionnel que lui soumettent d'autres membres du groupe de la haute direction.

En 1976-1977, nous avons continué de faire notre possible pour fournir au personnel du Bureau de la vérification des possibilités de carrière semblables à celles que l'on retrouve dans les principaux cabinets d'experts-comptables. Cette activité comprenait un programme de formation interne, des activités externes d'éducation permanente et un programme d'appréciation du rendement dans le cadre d'affectations, ce qui aide à repérer les besoins en formation.

En septembre 1977, l'Institut des comptables agréés de l'Ontario a augmenté le nombre d'étudiants qui peuvent être inscrits aux fins d'emploi au Bureau de la vérification à Ottawa. En outre, au cours de l'an dernier, la Société des comptables en management de l'Ontario et l'Association des comptables généraux licenciés de l'Ontario ont officiellement reconnu le programme de déroulement de la carrière du Bureau de la vérification comme étant une formation acceptable pour le personnel voulant obtenir un titre de R.I.A. ou de C.G.A. Cette reconnaissance et cette marque de confiance des trois principaux organismes de comptabilité de l'Ontario à l'égard du programme du Bureau pour la perfectionnement des étudiants nous aideront grandement dans nos efforts de recrutement et dans notre poursuite des objectifs professionnels du Bureau.

présentement le poste de directeur général du T.R.A.C.E. Environ 60 professionnels chevronnés, provenant de mon Bureau ou recrutés auprès d'importants cabinets canadiens de conseillers en gestion et d'experts-comptables, travaillent sous sa direction.

Comme l'indiquent les objectifs susmentionnés, l'approche initiale du T.R.A.C.E. était fondamentalement axée sur la recherche. Jusqu'à tout dernièrement, ce groupe de travail a examiné des programmes choisis dans certains ministères et organismes du gouvernement, recueillant des renseignements, accumulant des connaissances, et déterminant les compétences et les ressources dont aura besoin le Bureau de la vérification pour assumer son nouveau mandat.

Comme le demande la Loi sur le vérificateur général entrée en vigueur le 1<sup>er</sup> août 1977, les premiers résultats de nos études axées sur le concept de la valeur reçue en contrepartie de l'argent dépensé seront communiqués à la Chambre des communes dans mon Rapport de 1978. Afin d'atteindre cet objectif, nous avons récemment modifié l'approche initiale du T.R.A.C.E., axée sur la recherche et avons transformé ce dernier en programme opérationnel élargi. Nous poursuivons notre programme d'études particulières portant sur certains secteurs déterminés des opérations gouvernementales afin d'obtenir, par la vérification, des preuves de la qualité des contrôles de gestion. Concurrentement, des études en profondeur, dépassant le cadre des ministères et des organismes sont mises sur pied afin de faire enquête sur des questions touchant l'ensemble des opérations gouvernementales que nous ont révélées les examens effectués jusqu'à ce jour.

## TRAVAIL DE RECHERCHE SUR L'ANALYSE DU COÛT-EFFICACITÉ

### (Parties 2 et 19)

La principale recommandation du Comité indépendant de révision demandait que le Vérificateur général signale dans ses rapports annuels tous les cas où il a observé, en ce qui concerne les dépenses gouvernementales, qu'une juste valeur n'avait pas été reçue en contrepartie de l'argent dépensé. Le paragraphe 7(2) de la Loi sur le vérificateur général tient compte de cette recommandation et stipule entre autres que le Vérificateur général, dans son rapport annuel à la Chambre des communes, doit signaler ... les cas où il a constaté que

(d) des sommes d'argent ont été dépensées sans égard à l'économie ou à l'efficacité; ou

(e) des procédures satisfaisantes n'ont pas été établies pour mesurer et faire rapport sur l'efficacité des programmes dans les cas où elles peuvent convenablement et raisonnablement être mises en œuvre.

Bien que le Bureau de la vérification, au cours de mon mandat et de ceux de mes prédécesseurs, MM. Maxwell Henderson et Watson Sellar, ait signalé à la Chambre des communes des cas qui ont été constatés au cours des examens de vérification réguliers, où une juste valeur n'avait pas été reçue en contrepartie des paiements effectués par les ministères, les organismes et les sociétés de la Couronne, la Loi, pour la première fois, nous impose l'obligation de faire rapport des cas de cette nature.

Sachant que la Loi sur le vérificateur général serait bientôt présentée au Parlement et, par conséquent, qu'il fallait préparer de façon immédiate mon Bureau à assumer ses nouvelles responsabilités, j'ai mis sur pied, en septembre 1976, le groupe de Travail de recherche sur l'analyse du coût-efficacité qui devait poursuivre les objectifs suivants:

- amasser des renseignements et faire le point sur les techniques de contrôle de gestion dans le secteur public en termes d'économie, d'efficacité et d'efficience;
- évaluer (du point de vue de l'économie, de l'efficience et de l'efficacité) les procédés actuels de planification, de mesure et de contrôle des activités dans la fonction publique au Canada et en faire rapport;
- faire des recommandations au Bureau du vérificateur général quant à la façon, désormais, de réaliser son nouveau mandat.

La direction de ce groupe a été confiée à M. Kenneth G. Belbeck, président de Stevenson & Kellogg Ltd., cabinet d'experts-conseils en gestion, qui s'est joint au personnel de notre bureau le 1<sup>er</sup> septembre 1976, en vertu du Programme de permutation des cadres de la Commission de la fonction publique. Il occupe

est en train de rédiger des accords définissant les conditions d'exploitation des services susmentionnés, et qu'une filiale du CN sera établie le 1<sup>er</sup> janvier 1978, en vue d'exploiter ces services.

1976-1977, il n'a pas été établi de procédés détaillés à suivre pour les achats et les paiements compensatoires. En outre, on n'a pas encore validé les réclamations de paiements compensatoires. L'Office déclare qu'il est à prendre des mesures pour corriger les faiblesses signalées.

J'avais également signalé en 1976 que le Fonds renouvelable du Service central de commercialisation des objets d'artisanat indiens présentait des lacunes importantes en ce qui concerne les procédés comptables utilisés. Notre vérification en 1976-1977 a de nouveau révélé des lacunes importantes au chapitre des méthodes comptables et le défaut de respecter certaines exigences des lois et des règlements. Le ministre des Affaires indiennes et du Nord canadien et le Secrétaire du Conseil du Trésor étudient présentement d'autres méthodes de fonctionnement en ce qui concerne le Service central de commercialisation.

Depuis 1967, les Rapports signalent des lacunes en ce qui concerne la comptabilité des crédits et des revenus des bandes dont la responsabilité de l'administration a été transférée à ces bandes d'indiens par le ministre des Affaires indiennes et du Nord canadien. En 1975-1976, 555 bandes étaient responsables de l'administration d'environ \$140 millions. Notre examen de 384 rapports de vérification présentés en ce qui concerne ces fonds au cours de 1976-1977 révèle que dans 141 cas une opinion a été refusée, que 102 opinions étaient accompagnées de réserves et que dans 10 rapports aucune opinion n'a été exprimée. Les agents du Ministère nous ont informé que des améliorations sensibles des opérations financières des bandes ne peuvent être escomptées qu'à long terme et, à cette fin, le nombre de conseillers financiers des bandes a été augmenté.

Dans mon Rapport de 1974, je signalais que le ministre des Postes s'était lancé dans un programme de vente au public de divers articles non postaux sans autorisation précise à cet effet. Les modifications que l'on se propose d'apporter à la Loi sur les postes afin d'éliminer toute ambiguïté ou tout doute à cet égard n'ont pas encore été présentées au Parlement. Le Ministère nous a informé que le retard à légiférer sur le sujet est attribuable à son désir de présenter dans un seul et même projet toutes les modifications susmentionnées ainsi que d'autres projets de modifications qui n'ont pas encore été arrêtés.

En 1976, je soulignais l'absence d'un accord formel concernant les conditions d'exploitation du service côtier de Terre-Neuve, du service de traversiers de l'Île-du-Prince-Édouard et du service de traversiers par les Chemins de fer nationaux du Canada (CN) pour le compte du ministre des Transports. Étant donné l'absence d'un accord formel, le Ministère n'a pu vérifier les déficits qui sont imputés à son crédit tous les ans. Les déficits d'exploitation imputés aux crédits du Ministère se sont chiffrés à \$85,8 millions en 1976. Le Ministère nous a informé que l'on



Sujets traités dans les Rapports précédents (Partie 18)

Le Bureau de la vérification incite les ministères, les organismes gouvernementaux et les sociétés de la Couronne concernées à corriger rapidement les lacunes et les irrégularités qu'il a relevées lors de ses examens. À cette fin, nous sommes en mesure des correctifs sont réellement apportés. Lorsque des mesures n'ont pas été prises relativement aux sujets divulgués dans mes Rapports annuels, nous faisons rapport de la situation à la Chambre des communes et lui transmettons les raisons invoquées par les fonctionnaires concernés.

J'ai traité des sujets suivants dans mon Rapport de 1977:

- Dans mon Rapport de 1976, je signalais des lacunes dans le contrôle des paiements que le ministère de l'Environnement avait versés aux pêcheurs et aux usines de traitement des produits de la pêche. On a continué de verser des paiements même lorsque le montant total admissible de ce programme d'aide a été atteint et, par conséquent, un montant additionnel de \$1 million a été versé à titre d'aide à l'industrie du poisson de fond. On a établi en 1976-1977 des procédures visant à corriger les faiblesses relevées l'année précédente et on a pris des mesures pour recouvrer le montant de paiements en trop de \$194,000 signalés par suite de vérifications effectuées auprès de 39 usines.

- En 1976, je signalais que le ministère de l'Environnement versait \$241,400 de loyer annuel, en vertu d'un bail à long terme se terminant en 2045, pour un terrain au sujet duquel il n'avait alors prévu aucune utilisation. Le 31 mai 1976, le terrain était déclaré bien immobilier excédentaire et des négociations étaient entreprises avec le propriétaire au sujet d'utilisations acceptables de ce terrain. Au cours de l'année 1976-1977, le Ministère a de nouveau versé le loyer annuel de \$241,400. Aucune utilisation du terrain n'a encore été trouvée.

- Dans mon Rapport de 1976, je signalais que le ministère de l'Environnement avait imputé de façon irrégulière à un crédit de 1975-1976 un paiement de \$463,000 versé à la province du Manitoba en vertu d'un accord stipulant un partage égal des coûts en vue de réorganiser et d'étendre un refuge de la faune. Le Ministère n'a pas effectué d'autres paiements en vertu de cet accord et il a demandé à la province de produire une demande au prorata des travaux ou un engagement au titre des dépenses prévues à court terme. Si la province n'acquiesce pas à cette demande, des mesures de recouvrement seront prises en vue d'obtenir le remboursement d'un montant de \$865,000, représentant la fraction non utilisée de la contribution du Canada au projet.

- Je signalais, en 1976, diverses faiblesses relevées dans l'administration de l'Office de soutien des prix des produits de la pêche. Certaines mesures ont été prises pour corriger ces faiblesses mais certaines lacunes n'ont pas encore été comblées. Plus précisément, bien que l'on possède les pièces justificatives voulues à l'égard des paiements de

Nous avons relevé, au cours de nos examens, sept autres cas que nous avons portés à la connaissance de la Chambre des communes:

- La Commission canadienne des transports a, en 1974 et 1975, versé aux Chemins de fer nationaux du Canada des paiements en trop de \$22 millions au titre de subventions. Il faudra obtenir un crédit supplémentaire pour combler ce déficit accru de la Compagnie par suite du recouvrement de ce paiement en trop au moyen d'une réduction des subventions à verser à la Compagnie en 1977.
- L'administration du Régime d'assurance sur les bateaux de pêche, confiée au ministre de l'Environnement, comporte de sérieuses faiblesses. En outre, nous avons relevé deux paiements d'indemnités qui avaient été effectués sans que l'on ait obtenu les pièces justificatives nécessaires.
- Les éléments d'actif du Compte du Régime de pensions du Canada et les cotisations futures, en fonction du taux actuel des cotisations et de l'échelle des prestations, ne suffiront pas pour satisfaire aux futures obligations de pension. Le montant total cumulé de ce déficit n'a pas été déterminé ou signalé du point de vue actuariel.

- L'an dernier, plus de 90,000 pieds carrés d'espace à bureaux loué à Ottawa sont demeurés inoccupés pour des périodes variant de six à 10 mois, à un coût estimatif de \$400,000.
- Le ministère des Transports prête de l'équipement d'entretien usagé excédentaire à des aéroports qui sont la propriété de municipalités ou qui sont exploités par ces dernières. Ces prêts sont effectués sans autorisation adéquate et sans qu'il existe d'accords précis énumérant l'équipement et décrivant les conditions des prêts.

- On a effectué, en 1976-1977, des paiements d'un montant global de \$503,000 à titre de règlement de factures pour des logements non utilisés qu'avait réservés le Secrétariat canadien d'Habitat pour les délégués et les visiteurs devant participer ou assister à la Conférence des Nations unies sur les établissements humains et à "Forum Habitat".
- Notre vérification des états financiers de la Commission d'assurance-chômage pour l'année terminée le 31 décembre 1976 a révélé que la Commission avait démontré qu'elle avait versé des prestations à des réclamants qui n'y avaient pas droit et que, dans bon nombre de cas, elle n'avait pas suivi intégralement ses procédés administratifs en établissant l'admissibilité continue des réclamants. En nous fondant sur un échantillon statistique des personnes ayant reçu des prestations en 1976, nous avons estimé que la somme des trop-payés atteint environ \$95 millions. Ces trop-payés viennent s'ajouter aux \$5 millions de perte nette en trop-payés repérés par les activités de contrôle de la Commission.

À la lumière de la nouvelle politique et des nouvelles lignes directrices du gouvernement et des recommandations du rapport du Comité des comptes publics sur la société Polysar, et tenant compte également des déclarations autorisées formulées par les divers organismes législatifs, organismes investis du pouvoir de réglementation et associations professionnelles, mon Bureau a modifié ses méthodes de vérification de manière à réduire la possibilité que passent inaperçues les pratiques douteuses des ministères, organismes et sociétés de la Couronne. De plus, nous avons élargi la portée des lettres de déclaration afin qu'il y soit tenu compte de façon spécifique de la nouvelle politique et des nouvelles lignes directrices du gouvernement. La haute direction des ministères, des organismes et des sociétés de la Couronne utilise ces lettres de déclaration pour certifier au Vérificateur général qu'elle lui a fait connaître toutes les questions d'importance qui devaient lui être signalées dans le cadre de ses travaux de vérification.

Nos vérifications cette année nous ont permis de relever des pratiques douteuses au sein d'une société de la Couronne, l'Office canadien du poisson salé, et d'un ministère, celui des Affaires extérieures. Dans les deux cas, nous avons avisé les ministères concernés des cas relevés, lesquels ont été étudiés par les cadres supérieurs concernés de même que par le conseil d'administration dans le cas de l'Office canadien du poisson salé. Nos examens n'ont révélé aucune inconvénance financière qui aurait laissé sous-entendre qu'un gain personnel aurait été recherché par les membres de la Société ou du Ministère en question. Les deux organismes ont donné l'ordre de mettre fin à ces pratiques; nous veillerons à ce que l'on se conforme à cet ordre. Les paragraphes qui suivent donnent plus de détails à ce sujet.

● Au cours de l'année financière 1976-1977 et des années antérieures, l'Office canadien du poisson salé a suivi des pratiques commerciales douteuses. À la demande des clients, des factures de vente ont été gonflées et des remises ont été payées. En 1976-1977, les factures de vente gonflées par la Société représentaient environ \$8 millions sur un montant net de \$15.4 millions au titre des ventes de la Société et les remises en question se chiffraient approximativement à \$400,000. La direction de la Société nous a donné l'assurance qu'il avait été mis un terme à ces pratiques commerciales douteuses et nous avons pris connaissance de directives précises à cet égard.

● Le ministère des Affaires extérieures conclut des accords de location afin de louer des propriétés destinées à loger ses ambassades ou à servir de logements pour son personnel dans le monde entier. Dans certains pays, on a eu recours à des doubles baux et à d'autres accords de location inhabituels afin d'obtenir des logements quels qu'ils soient relevés lors de notre vérification pour l'année financière 1976-1977 se sont chiffrés à \$508,000. De ce montant, \$330,000 avait été payé en espèces et \$178,000 par chèque. On nous a donné l'assurance qu'il avait été mis un terme à ces pratiques douteuses de location et nous avons pris connaissance de directives précises à cet égard.

Le peuple canadien a accordé une importance accrue aux questions d'imputabilité des organismes gouvernementaux et des sociétés et aux responsabilités des vérificateurs en partie à cause de l'importance accrue qu'on leur accordait aux États-Unis et par suite de certains événements qui se sont produits au Canada, notamment les audiences du Comité permanent des comptes publics qui, l'an dernier, ont porté sur les pratiques douteuses de l'Énergie atomique du Canada, Limitée, et de Polysar Limitée.

Le 16 décembre 1976, le Président du Conseil du Trésor annonçait la nouvelle politique et les nouvelles lignes directrices du gouvernement concernant les pratiques commerciales des sociétés de la Couronne. M. Andras, en conclusion de son exposé, disait ce qui suit:

... Je dois signaler que des normes rigoureuses d'éthique commerciale et un engagement sans détour pour la rectitude en affaires - que ce soit de la part de personnes, d'entreprises, de gouvernements ou d'États - ont pour conséquence nécessaire l'acceptation de certaines contraintes pratiques au niveau de l'action et de la performance. En d'autres mots, ce que j'affirme aujourd'hui c'est que si nous, Canadiens, devons développer notre commerce extérieur et souhaitons vivement le faire, nous ne sommes pas prêts à vendre nos biens et services à n'importe quelle condition et dans n'importe quelle circonstance.

Les principes, tout comme les biens matériels, peuvent coûter cher. Nous devons être pleinement conscients du prix qu'il faut payer pour vivre selon nos principes, pour demeurer le peuple que nous avons voulu être et pour maintenir la société que nous avons voulu construire. Nous ne prétendons pas que notre façon de voir les choses, à nous, Canadiens, nous rend meilleurs que les autres peuples. Il n'en reste pas moins que c'est notre manière d'être - celle que nous avons délibérément choisie.

Le 7 février 1977, le Secrétaire du Conseil du Trésor publiait une circulaire adressée aux sous-chefs des ministères et aux chefs d'organismes où il était précisé que la politique et les lignes directrices émise par le Ministre en décembre s'appliquaient non seulement aux sociétés de la Couronne mais également à tous les ministères et organismes du gouvernement.

Le 7 juillet 1977, le Comité permanent des comptes publics présentait à la Chambre des communes son second rapport, le Rapport Polysar, point culminant d'une série d'audiences s'étendant sur plusieurs mois et qui avaient porté sur les pratiques commerciales douteuses de la société Polysar Limitée. Ces pratiques avaient été signalées pour la première fois par mon prédécesseur dans une lettre qu'il avait adressée au Premier ministre du Canada le 22 mars 1973.

Ce rapport du Comité des comptes publics s'efforce de faire connaître aux vérificateurs des organismes et entreprises financés à l'aide des deniers publics, y compris bien sûr le Vérificateur général du Canada, ce que le Parlement exige, et est en droit d'exiger d'eux, lorsqu'ils effectuent des vérifications et rendent compte des résultats des examens de vérification. À cause de son importance, le texte intégral du rapport du Comité a été reproduit à l'Annexe E de mon Rapport de 1977.



L'accord qui exigeait qu'elle mette en oeuvre un programme acceptable de contrôle de la pollution avant que ne puisse être effectué le paiement final.

En février 1976, le Secrétaire d'Etat obtenait l'autorisation du Conseil du Trésor de verser une contribution à un organisme chargé du lancement, de la vente et de la distribution de livres canadiens à l'étranger, le montant de la contribution devant équivaloir à 50 pour cent des ventes de l'organisme au cours de l'année financière précédente, jusqu'à un maximum de \$300,000. En 1976-1977, le Ministère a versé \$300,000 à l'organisme bien que la contribution à laquelle il avait droit n'était que de \$232,000.

En 1972, le Conseil du Trésor autorisait le Secrétaire d'Etat à verser des contributions allant jusqu'à un maximum de \$150,000 par projet à des particuliers, des organismes et des institutions pour le financement de projets d'essai et de recherche concernant l'expansion du bilin-guisme. Selon le Ministère, le Conseil du Trésor autorisait un versement maximum annuel de \$150,000 par projet et, sur des périodes variant de trois à cinq ans, le Secrétaire d'Etat a effectué des paiements s'élevant à \$2,205,000 pour subventionner cinq projets. On a versé \$299,000 pour un projet au cours d'une année. A notre avis, \$1,455,000 a été versé sans autorisation appropriée.

Le Solliciteur général est autorisé à conclure des ententes avec les provinces afin de contribuer au paiement des frais de détention des personnes condamnées ou envoyées dans un pénitencier fédéral. On a payé aux provinces, en 1975-1976 et en 1976-1977, des montants évalués à \$769,000 qui n'étaient pas conformes aux ententes ou qui n'étaient pas prévus par ces dernières.

En vertu des clauses d'un contrat à long terme évalué à \$20 millions, le ministre des Transports est censé effectuer des paiements échelonnés à l'entreprise suivant l'exécution de certaines étapes précises du projet. En 1976-1977, des paiements échelonnés dépassant \$600,000 ont été versés avant les dates d'achèvement des étapes.

Comme l'indique la Section 11 du Volume I des Comptes publics de 1976-1977, les pertes nettes par la fraude, la faute ou l'erreur des fonctionnaires se sont chiffrées à \$240,272 en 1976-1977.

En 1973, les révélations découlant de l'affaire Watergate aux Etats-Unis ont attiré l'attention sur la conduite douteuse de sociétés, en particulier la question des paiements effectués au comité pour la réélection du Président. Subséquentement, des enquêtes dans les secteurs public et privé et d'autres révélations ont successivement dévié l'attention du public des paiements pour fins politiques effectués à l'intérieur du pays aux paiements pour fins politiques effectués à l'étranger, à d'autres paiements effectués dans des pays étrangers et, en dernier lieu, aux questions de pots-de-vin versés par des sociétés aux Etats-Unis.



En 1975-1976, le ministère de la Défense nationale a versé à un fournisseur un paiement en trop d'environ \$111,000. Le fournisseur a signalé cette erreur au Ministère et a, par la suite, remboursé le montant du paiement en trop, montant que le Ministère a ajouté de façon irrégulière à son crédit budgétaire de 1976-1977 pour payer d'autres dépenses.

L'Office national du film a inscrit les coûts d'un programme en 1976-1977 mais a omis de déclarer dans son état d'exploitation de l'année des contributions de \$625,000 reçues de cocommanditaires du programme. En reportant ces contributions à l'année suivante, l'Office a recouvré, grâce à son crédit parlementaire, un montant auquel il n'avait pas droit et qui aurait dû être périmé au 31 mars 1977.

Le ministre de l'Expansion économique régionale a imputé de façon irrégulière à son crédit de 1976-1977 un paiement de \$1.5 million effectué en avril 1977. Ce paiement aurait dû être comptabilisé à titre de dépense de 1977-1978.

En mars 1973, afin d'éviter la pérémpion du montant, le Secrétaire d'État a demandé un chèque de plus de \$2 millions pour une subvention à verser à une compagnie de spectacles pour l'agrandissement d'installations existantes et la construction de nouvelles installations. Le chèque a été déposé auprès d'une compagnie de fiduciaire en attendant que le Ministère approuve les plans de construction. Le projet a par la suite été retardé et les fonds ont été retournés en mai 1976 au Fonds du revenu consolidé. Le Ministère a agi incorrectement lorsqu'il a demandé le chèque et qu'il l'a déposé auprès d'une compagnie de fiduciaire puisqu'il n'était pas autorisé à payer la subvention avant d'avoir approuvé les plans de construction.

Au cours de l'année, le Bureau de la vérification a relevé six cas où il a remarqué que les dépenses n'avaient pas été autorisées ou qu'elles n'avaient pas dûment été appuyées de pièces justificatives ou certifiées:

Dans le cadre du Programme d'initiatives locales, le ministre de la Main-d'œuvre et de l'Immigration a effectué des paiements anticipés à des bénéficiaires de contributions sans que ces paiements aient été au préalable approuvés par le Conseil du Trésor. De plus, afin d'éviter que ne soient périmés les fonds de son crédit réservés au programme, le Ministère a effectué des paiements anticipés d'environ \$27 millions qui étaient nettement supérieurs aux besoins financiers immédiats des bénéficiaires.

En avril 1977, dans le cadre d'un accord de subvention en vue du développement régional, le ministre de l'Expansion économique régionale a effectué un paiement final de \$1.3 million à une société bien que cette dernière n'ait pas respecté une condition essentielle de

- **Conseil des ports nationaux.** Le Conseil n'a pas effectué de révision systématique de la durée utile estimative de ses immobilisations; par conséquent, il n'existe pas de documents adéquats à l'appui des frais d'amortissement de ces immobilisations.

- **Administration de la voie maritime du Saint-Laurent.** L'Administration de la voie maritime du Saint-Laurent n'a pas prévu, dans ses états financiers, d'amortissement pour une partie importante de ses immobilisations.

- **Fonds renouvelable des Approvisionnements.** Des stocks, évalués à \$1,9 million dans les états financiers du Fonds pour l'année financière terminée le 31 mars 1977, n'ont pas été comptés.

Les états financiers comprenaient également des montants de revenus reportés qu'on aurait dû inscrire comme revenus au cours de l'année. Il en est résulté une déclaration en plus des revenus reportés et, par conséquent, une déclaration en moins des bénéfices non répartis.

- **Télélobe Canada.** Télélobe Canada est un des participants de l'Organisation des télécommunications du Commonwealth et, de ce fait, peut recouvrer une fraction des frais engagés au titre de la fourniture et de l'installation des installations du système de télécommunication. Étant donné que des règlements finals ont été conclus seulement jusqu'au 31 mars 1969, les recouvrements estimatifs et les montants provisoires reçus à titre de règlement ont été inscrits aux comptes pour les années subséquentes jusqu'à ce jour. Cependant, vu les incertitudes concernant les résultats probables des règlements finals et les montants en cause, tout rajustement découlant des règlements finals pourrait avoir un effet important sur les états financiers de la Société.

En plus des cas précis susmentionnés, certaines sociétés de la Couronne et certaines autres entités n'ont pas inscrit aux livres les éléments de passif pour les prestations de cessation d'emploi auxquelles leurs employés avaient droit.

## **Irrégularités, pratiques douteuses et autres cas (Parties 16 et 17)**

Les examens que nous avons effectués en 1976-1977 ont révélé le cas d'une agence gouvernementale qui avait omis de percevoir ou de recevoir des deniers appartenant au Canada:

- L'Agence canadienne de développement international n'a pas donné suite au recouvrement du produit de l'assurance d'une cargaison de pâte de bois évaluée à \$246,000, endommagée en cours de transport en juin 1975 et que le bénéficiaire avait assurée.

Dans cinq cas, des crédits budgétaires ont été dépassés ou ont été affectés à une fin ou d'une façon non autorisée par le Parlement:

- Le montant maximum autorisé (\$2 millions) au titre de l'avance de fonds de roulement du Fonds renouvelable de l'Agence des télécommunications gouvernementales a été dépassé durant sept mois de l'année en cours. À un certain moment, le dépassement a été de \$1,9 million.

● **Les Arsenaux canadiens, Limitée.** Des immobilisations, dont le coût initial est de \$22.6 millions, y compris celles qui ont été achetées au moyen de fonds provenant de son crédit parlementaire annuel, ne figurent pas comme éléments d'actif sur le bilan de la Compagnie. Par conséquent, les éléments d'actif ont été déclarés en moins dans les états financiers. De plus, le déficit est également déclaré en moins puisque la perte nette ne comporte aucune imputation au titre des frais d'utilisation de ces immobilisations.

Egalement, en 1976-1977, la Compagnie n'a effectué qu'un dénombrement partiel de ses propres stocks et n'a pas dénombré les stocks détenus pour le compte d'autres ministères du gouvernement.

● **Société Radio-Canada.** Au cours des trois dernières années, la Société n'a pas comptabilisé l'intérêt couru (\$14 millions par année) sur des emprunts auprès du Canada. Les états financiers de la Société pour 1976-1977 ne comportaient aucune inscription de l'intérêt couru pour l'année financière courante au titre de ces prêts et aucune inscription d'un passif de \$42.2 millions au titre du total de l'intérêt couru à ce jour.

● **Corporation commerciale canadienne.** La Corporation est défendresse dans une poursuite en justice où il est réclamé des dommages-intérêts de plus de \$6.8 millions par suite de la cessation d'une partie d'un contrat. Le résultat final de cette poursuite pourrait avoir un effet sur les états financiers de la Corporation.

● **Fonds renouvelable de la production de défense.** Un prêt de \$1.7 million consenti à un fournisseur de la Corporation commerciale canadienne figure au bilan du Fonds à titre d'élément d'actif. Il n'est pas certain que le montant du prêt puisse être recouvré.

D'autres éléments d'actif inscrits au bilan sont constitués de paiements échelonnés versés à des fournisseurs et de stocks détenus par des tiers pour le compte du Fonds. Les registres comptables sont inadéquats et ne permettent pas d'établir les montants attribuables à l'un ou l'autre de ces deux éléments et de confirmer certains paiements échelonnés; de plus, d'autres stocks n'ont pas fait l'objet d'un dénombrement à la fin de l'année.

● **Commission de la Capitale nationale.** En 1977, des immobilisations, dont la valeur comptable est supérieure à la valeur réalisable à la vente, figuraient dans les comptes de la Commission. J'avais déjà signalé cette situation dans mes Rapports de 1975 et de 1976.

De plus, la Commission, dans ses états financiers, n'a pas prévu d'amortissement pour les immobilisations qui peuvent se détériorer ou devenir désuètes.

- Le déficit du Compte du Fonds des changes qui, au 31 décembre 1976, s'élevait à \$125 millions sera imputé aux dépenses budgétaires en 1977-1978.

- La provision de \$546 millions pour pertes sur réalisation d'actif est établie de façon arbitraire et non en fonction de la valeur d'éléments d'actif particuliers ou de catégories particulières d'éléments d'actif.

- Les états financiers ne déclarent aucun déficit résultant de l'évaluation actuarielle du Compte du Régime de pensions du Canada ou du Compte de prestations de retraite supplémentaires.

Cette année, un certain nombre de changements importants ont été apportés à la présentation des états financiers. Ces changements indiquent la mise en application, en tout ou en partie, de plusieurs recommandations de l'étude des comptes du Canada mise sur pied par le Secrétaire du Conseil du Trésor et effectuée conjointement avec le ministre des Finances et le ministre des Approvisionnements et Services. Plusieurs des lacunes susmentionnées seront corrigées une fois que les recommandations de l'étude auront été mises en application dans leur entier. D'autres problèmes concernant l'évaluation des prêts consentis à d'autres gouvernements et à des organismes contrôlés par l'État font actuellement l'objet d'études par le gouvernement.

## Réserve formulée à l'égard des sociétés de la Couronne et d'autres entités (Partie 15)

Mes rapports de vérification préparés et déposés en 1977 comportaient des réserves dans certains cas parce que j'avais constaté des lacunes de comptabilité ou de présentation des états financiers, des contradictions aux pouvoirs statutaires ou autres questions affectant la fidélité de la présentation de l'information dans les états financiers. J'ai exprimé des réserves dans mes rapports à l'égard des sociétés de la Couronne et autres entités suivantes:

- **Fonds renouvelable des aéroports.** Les frais d'aménagement pour la construction projetée d'un nouvel aéroport à Pickering, en Ontario, ont été capitalisés alors qu'on prévoyait recouvrer ces coûts sur les recettes d'exploitation une fois l'aéroport construit. La construction de cet aéroport est maintenant peu certaine.

- **Énergie atomique du Canada, Limitée.** En 1975-1976, je signalais les valeurs comptables excessives de deux prototypes de centrales nucléaires, en comparaison de leur valeur estimative de réalisation. Deux entreprises provinciales de service public se sont engagées à offrir d'acheter les deux centrales à des prix qui leur sont économiquement acceptables une fois qu'il aura été démontré que les centrales sont une source d'énergie sûre et fiable. Mon rapport sur l'examen des comptes de la Société pour l'année terminée le 31 mars 1977, comportait une réserve étant donné qu'on ne sait pas si le produit des ventes permettra le recouvrement des coûts de ces centrales.



(Parties 13 à 18)

Les Parties 13 à 18 de mon Rapport décrivent les vérifications effectuées par le Bureau de la vérification auprès des ministères et des sociétés de la Couronne au cours de l'année 1976-1977. Les Parties 13 et 14 reproduisent mes attestations des principaux états financiers du Canada et nos remarques à leur égard. La Partie 15 contient des commentaires sur les états financiers et l'exploitation des sociétés de la Couronne et autres entités, signalant, en particulier, les cas où j'ai exprimé des réserves à l'égard de rapports de vérification déposés à la Chambre des communes. Cette Partie contient également les raisons justifiant les réserves formulées.

Les Parties 16 et 17 signalent les irrégularités découvertes au cours de nos examens et les autres cas qui, à mon avis, devraient être portés à la connaissance de la Chambre des communes. La Partie 18 présente des commentaires sur des sujets traités dans les Rapports des années antérieures et pour lesquels il demeure nécessaire d'apporter des mesures correctives.

Remarques sur les états financiers du gouvernement du Canada (Partie 14)

Toutes les attestations accompagnant les états financiers du Canada pour 1976-1977 sont assujetties aux commentaires que renferme mon Rapport.

La Partie 14 renferme des remarques sur les états financiers qui comportaient clairement des lacunes dans la présentation de la situation financière et de l'exploitation financière du gouvernement du Canada. Plusieurs de ces remarques ont fait l'objet de commentaires dans mes Rapports des années antérieures. Les sujets suivants y sont soulignés à cause de leur importance particulière en ce qui a trait à une juste interprétation des états financiers :

- Il existe une surestimation des éléments déclarés d'actif et de passif se chiffrant à \$2,692 millions, dans le premier cas, et à \$38 millions, dans le second cas, par suite du regroupement dans les états financiers de certains soldes sous le titre de Comptes internes, soldes devant éventuellement être radisés. Ces soldes ne correspondent pas à la définition que donne le gouvernement des éléments d'actif et de passif.
- Les éléments d'actif comportent des prêts de \$599 millions qui nécessiteront probablement des crédits parlementaires pour être radisés et des prêts se chiffrant à \$4,101 millions dont la valeur comptable est incertaine. Ce dernier montant comprend des prêts et avances aux sociétés de la Couronne et aux pays en voie de développement s'élevant, dans le premier cas, à \$2,525 millions et, dans le second cas, à \$1,215 millions.
- Les déficits pour lesquels il faudra probablement des crédits parlementaires comprennent ceux de trois sociétés de la Couronne représentant une somme de plus de \$350 millions.



## Bureaux (Partie 10)

En 1975-1976, le Bureau de la vérification a fait une étude de la gestion et du contrôle financiers des bureaux du gouvernement fédéral. L'étude que nous avons faite des directives et des lignes directrices existantes en vue de l'attribution d'espace à bureaux a révélé que certaines pratiques semblaient mener à une utilisation inefficace des superficies. Mon Rapport de 1976 contenait une série de recommandations visant à corriger cette situation.

En mai 1977, le Conseil du Trésor publiait de nouvelles lignes directrices traitant de certains aspects de l'attribution des locaux. Même si les lignes directrices existantes ne répondent pas à tous les sujets signalés dans mon Rapport de 1976, elles sont définitivement meilleures que les procédés antérieurs.

## Contrôles internes des systèmes de paie (Partie 10)

En 1976, il a été entrepris, à l'échelle du gouvernement, une étude de la suffisance des contrôles internes des systèmes de paie. Ces systèmes touchent plus de 350,000 employés dont la rémunération annuelle est de quelque \$5,000 millions (environ 40% du total des dépenses d'exploitation du gouvernement). Notre étude a porté sur un échantillon de ministères et de bureaux de paie du ministère des Approvisionnements et Services.

Mon Rapport de 1976 contenait un bref résumé de nos observations. Parmi les lacunes relevées, il y avait la délégation inadéquate de la responsabilité d'autoriser l'entrée de données au système de la paie, le manque de révisions appropriées des frais de paie dans les ministères et une quantité de faiblesses de contrôle interne relevées dans les systèmes de paie administrés par le ministère des Approvisionnements et Services.

Au cours de l'année dernière, le Conseil du Trésor et le ministère des Approvisionnements et Services ont mis sur pied un Groupe de travail sur l'administration de la paie. En juillet 1977, le Conseil du Trésor a publié une circulaire concernant une nouvelle politique d'administration de la paie qui traite d'un certain nombre des lacunes signalées.

## Taxe de vente de fabricant (Partie 10)

La direction de l'Accise du ministère du Revenu national est chargée de fixer et de percevoir la taxe de vente de fabricant. L'étude que nous avons faite en 1975-1976 a démontré que bien qu'il y aurait lieu d'améliorer le développement, la formation et les programmes de vérification et les interprétations techniques, la Direction fonctionnait assez bien, compte tenu des ressources qu'elle avait à sa disposition. La direction de l'Accise a pris des mesures pour corriger les lacunes signalées. Le Bureau de la vérification se propose de contrôler l'effet de ces mesures en 1977-1978.

**Contrôles financiers internes.** L'étude a révélé de sérieuses faiblesses dans les contrôles financiers internes de la plupart des organisations examinées. En général, les ministères et organismes ne déléguaient pas le pouvoir de signer en matière de finances pour des subventions et contributions, comme l'exigent différents articles de la Loi sur l'administration financière. Les bénéficiaires n'étaient pas non plus obligés de rendre compte de l'utilisation des fonds. Les secteurs problèmes précis comprenaient les suivants:

- **Pouvoir de délivrer des certificats d'engagement.** La plupart des ministères et organismes n'appliquaient pas de façon uniforme ou efficace le contrôle des engagements en vertu de l'article 25 de la Loi sur l'administration financière.

- **Pouvoirs de dépenser et de payer.** On se soumettait partiellement ou pas du tout aux exigences régissant l'exercice des pouvoirs de dépenser et de payer. Dans certains ministères et organismes, on exerçait le pouvoir de signer sans délégation préalable. On signalait fréquemment les demandes de chèque alors qu'il n'y avait pas de spécimen de signature aux dossiers permettant de vérifier l'authenticité du pouvoir de signer, ou les pouvoirs de dépenser et de payer étaient exercés par la même personne. Les cartes de spécimen de signature, lorsqu'elles étaient disponibles, étaient souvent incomplètes.

**Paiements, avances et vérification des comptes.** Les subventions se paient habituellement en un ou plusieurs versements. Les contributions se paient le plus souvent sous forme d'avances suivies d'un paiement final rajusté. On a versé des avances périodiques sans que les bénéficiaires rendent des comptes satisfaisants pour les avances antérieures et sans observer les autres modalités.

Pour éviter la pérémpion des crédits, quelques ministères ont fait des avances à la fin de l'année financière qui dépassaient les besoins immédiats des bénéficiaires. Dans un cas, on a versé des sommes importantes dans un compte de fiducie pour un projet qui a été reporté.

Les relevés de coûts provenant des bénéficiaires qui avaient reçu des paiements de contributions ne fournissaient pas toujours des détails suffisants pour établir une comptabilité appropriée de l'utilisation des fonds. Des ministères et organismes n'ont également pas suivi de procédés de vérification de comptes adéquats avant de faire des paiements.

**Vérifications.** On a découvert qu'une très faible portion des paiements de contributions faisait l'objet d'une vérification sur place par des équipes du gouvernement et, souvent, les accords ne prévoyaient pas une telle vérification. Lorsque les rapports de vérification arrivaient aux ministères et organismes, il n'y avait pas de procédés pour s'assurer que l'on prenait des mesures de suivi appropriées concernant les recommandations des vérificateurs.

soumissions par appel d'offres avant la construction. De plus, on ne demandait pas toujours l'avis d'experts-conseils sur les aspects techniques des projets d'immobilisation dans l'évaluation des propositions.

**Critères et modalités des programmes.** Pour les subventions et contributions qui peuvent être accordées à des catégories ou groupes de bénéficiaires, le ministère ou l'organisme doit obtenir du Conseil du Trésor l'approbation des modalités de l'aide financière et des paiements. Pour certains programmes, il n'y a pas de critères et les agents de programme se servent des modalités s'appliquant à des programmes semblables. Lorsque des programmes sont assujettis aux dispositions d'un décret du conseil, ces dernières sont généralement trop vagues pour permettre un contrôle adéquat des dépenses.

**Demandes et accords de contributions.** Les systèmes établis pour l'analyse, l'évaluation et l'approbation des demandes de contributions sont généralement bien définis. Toutefois, on manque en général de documentation adéquate sur les décisions prises au cours de ces processus pour s'assurer que l'on se conforme aux procédés établis.

Les accords régissant les contributions approuvées manifestent des lacunes sur plusieurs plans. Dans certains cas, l'accord n'est pas explicite et il manque des conditions importantes; certaines contributions ne sont pas appuyées par un accord officiel. Les modalités des accords sont également mal contrôlées. Plusieurs ministères et organismes font des paiements sur demande, que les bénéficiaires aient rempli ou non les conditions de l'accord.

**Accords entre le fédéral et les provinces.** Dans plusieurs ministères et organismes, il y a des accords entre le fédéral et les provinces s'appliquant à des subventions et contributions; on a décelé de nombreuses faiblesses dans les accords actuels.

Certains accords sont dépassés, imprécis ou incomplets sur des questions comme les responsabilités de vérification et le maximum des contributions fédérales. Dans certains cas, on signe des accords en vertu de programmes pour lesquels le Conseil du Trésor n'a pas approuvé de modalités.

Les demandes de paiement des provinces sont reçues à des intervalles irréguliers, quelquefois deux ou trois ans après que l'on a engagé les dépenses. Lorsque l'on fait des paiements provisoires aux provinces en se fondant sur les dépenses estimatives, les retards dans la présentation des relevés de coûts réels peuvent entraîner un financement temporaire qui dépasse les besoins provinciaux, ce qui retarde encore plus le paiement des remboursements au gouvernement fédéral.

**Contrôle et évaluation.** Dans la plupart des ministères et organismes, il y a des procédés pour le contrôle et l'évaluation des dépenses de subventions et contributions mais on ne les applique pas toujours de façon uniforme et complète. Pour certains programmes, l'absence d'un contrôle efficace ou d'un rapport fiable d'évaluation peut entraîner le soutien continu de projets qui ne sont pas administrés adéquatement.



provinces, les paiements pour l'assurance-chômage et la sécurité du revenu. L'importance de ces montants accentue la nécessité de contrôles financiers internes stricts, de procédés administratifs sérieux et de directives et lignes directrices exhaustives sur la gestion des fonds.

**Divuligation dans le Budget des dépenses.** Le libellé utilisé dans le Budget des dépenses pour décrire les contributions est souvent trop vague pour permettre aux députés et autres de connaître les objectifs précis pour lesquels les fonds sont demandés. Dans certains cas, le même libellé sert à des programmes ayant des objectifs différents et, dans certains ministères, les programmes ont des caractéristiques tellement vagues que n'importe quel projet pourrait se conformer aux critères. Des demandeurs pourraient obtenir des contributions pour un objectif précis par l'entremise de deux différents programmes d'un ministère ou de deux différents ministères. Comme les ministères ne produisent habituellement pas de liste des bénéficiaires de contributions, on risque de financer en double des projets ou des organisations.

**Confusion entre subventions et contributions.** L'étude a révélé une incohérence répandue dans le classement des subventions et contributions. Il y avait des changements fréquents dans le classement relatif à ces deux catégories, habituellement de contributions à subventions.

Les expressions "subventions" et "contributions" sont utilisées indifféremment dans les descriptions de projets, les évaluations de projets et les lettres avisant les bénéficiaires d'aide financière ainsi que dans les présentations au Conseil du Trésor et dans les règlements approuvés par décret du conseil. On retrouve la même confusion dans l'utilisation du mot "subvention" dans le titre de certains programmes de contributions. Une telle incohérence peut semer la confusion chez le ministère donateur et le bénéficiaire et nuire à l'application de contrôles efficaces.

**Subventions et contributions d'immobilisation.** Les projets d'immobilisation sont financés à la fois par des subventions et par des contributions et peuvent entraîner des paiements de plusieurs millions de dollars.

Dans certains cas de financement par subventions d'immobilisation, on impose aux bénéficiaires des obligations de rendre des comptes. Bien que cette pratique soit louable sur le plan du contrôle financier, les subventions définies au Budget des dépenses principal ne comportent pas d'obligation de rendre des comptes. L'aide financière au titre d'immobilisation devrait être classée et administrée en tant que contributions.

On a relevé des lacunes dans les renseignements soumis à l'appui des demandes de paiement pour quelques projets d'immobilisation financés par des contributions. Dans certains cas, on a également versé des paiements supérieurs à ceux qui avaient été approuvés à l'origine sans qu'il y ait validation des augmentations de coût déclarées.

Dans certains cas, ceux qui demandaient un financement pour un projet d'immobilisation n'avaient pas besoin de prouver qu'ils avaient obtenu des

Subventions et contributions (Partie 12)

L'étude des subventions et des contributions cherche à apprécier la suffisance de la gestion et du contrôle financiers exercés sur les dépenses de cette nature dans tous les ministères et organismes du gouvernement que le Vérificateur général est chargé de vérifier. La Partie 12 de mon Rapport contient un rapport général sur des questions qui ont été soulevées au cours de nos examens depuis 1975-1976. Ce rapport général est suivi de rapports condensés donnant, dans les grandes lignes, les points d'intérêt et les observations portant sur les programmes de subventions et de contributions des ministères et organismes vérifiés suivants au cours de 1976-1977.

- le ministère de l'Énergie, des Mines et des Ressources
- le ministère de l'Emploi et de l'Immigration
- le Secrétariat d'État
- le Conseil des Arts du Canada
- les Musées nationaux du Canada
- le Conseil national de recherches du Canada

Nous vous donnons ci-dessous un résumé des observations et recommandations du rapport général.

**Questions visant l'ensemble du gouvernement.** Au cours de notre étude de deux ans, nous avons remarqué de sérieux défauts de contrôle dans les procédés d'engagement de fonds, de dépense et de paiement ainsi que des lacunes importantes dans d'autres secteurs. Plus précisément, les ministères et organismes n'ont pas tenu compte des exigences pour l'exercice des pouvoirs de dépenser et de payer au titre des subventions et des contributions ou ne les ont respectées qu'en partie. En outre, il y a manque de comptes rendus de la part des bénéficiaires de contributions et certains ministères n'appliquent pas les mesures voulues pour que les bénéficiaires respectent de façon opportune les exigences de comptes rendus, s'il en est.

L'étude a révélé un manque d'uniformité généralisé dans la classification des "subventions" et "contributions". En outre, cette confusion provient du fait que l'on utilise indifféremment les deux termes. Dans le cas de certains programmes les critères n'ont pas été approuvés par le Conseil du Trésor ou certaines contributions ne sont pas appuyées d'une entente officielle et, lorsqu'il y a des ententes, l'application des modalités qui les régissent n'est pas suffisante. En outre, afin d'empêcher que des crédits deviennent périmés, certains ministères ont fait, en fin d'année, des avances dépassant les besoins immédiats des bénéficiaires. Pour l'année financière 1977-1978, un total de \$7,700 millions a été alloué aux subventions et contributions, sans compter les paiements de transfert aux



de six ministères importants a révélé que les directives, les lignes directrices et les règlements du Conseil du Trésor étaient soit appliqués de façon inconséquente, soit en grande partie ignorés, et qu'il semblait qu'on faisait peu ou point d'effort en vue d'assurer l'utilisation la plus efficace des fonds de voyage. Mon Rapport de 1976 contenait des recommandations détaillées quant aux mesures à prendre pour remédier aux lacunes existantes.

En 1976-1977, nous avons examiné les frais de voyage et de réinstallation de 19 autres ministères du gouvernement. L'étude a révélé des faiblesses semblables à celles qui ont été signalées l'année précédente.

Le 1<sup>er</sup> avril 1977, le Conseil du Trésor a publié des modifications aux directives d'exécution de ces règlements assure un contrôle plus efficace des fonds alloués à ces fins.

Notre étude, en plus de l'examen des ministères, a été élargie pour comprendre l'examen des frais de voyage et de réinstallation de huit sociétés de la Couronne, les frais de voyage à l'étranger ainsi que les opérations du Service central des voyages. Cette fois encore, notre examen avait pour but de déterminer la mesure dans laquelle on se conformait aux règlements, directives et lignes directrices, l'efficacité des contrôles exercés dans ce domaine et, dans le cas du Service central des voyages, la suffisance des contrôles financiers sur les activités se rattachant à cet organisme.

Chez les huit sociétés de la Couronne étudiées, le contrôle des avances de voyage et des dépenses relatives aux voyages prolongés était insuffisant. L'économie à l'égard des moyens de transport et des frais de logement n'est ni prévue ni exigée; en outre, il existait des différences considérables, d'une société à l'autre, au titre des indemnités versées pour les repas et les dépenses imprévues. La politique concernant les frais de réinstallation admissibles varie d'une société à l'autre et, dans toutes les sociétés, nous avons découvert des faiblesses dans les contrôles financiers internes exercés sur les frais de voyage et de réinstallation. Mon Rapport de 1977 contient des recommandations particulières en vue de remédier à ce genre de lacunes.

Les directives du service extérieur, publiées par le ministère des Affaires étrangères, ont pour but de contrôler les dépenses qu'entraînent les voyages à l'étranger. Nous avons découvert des lacunes dans la comptabilité des avances de voyage, dans la justification des demandes d'indemnités ainsi que dans les procédures concernant les indemnités versées pour le logement, dans le cas de périodes prolongées, et pour les repas, dans les cas de réinstallation.

Le Service central des voyages est un organisme chargé de s'occuper du transport et du logement pour le compte des ministères et des organismes, de négocier des tarifs spéciaux pour les employés du gouvernement et de vérifier et de payer les comptes de transport du gouvernement. Il existe des faiblesses de contrôle dans les dispositions prises en vue de fournir des services de réservations et de billets, dans les systèmes de facturation et les procédures de paiement du Service central des voyages et des ministères et organismes utilisateurs et dans les procédures d'autorisation à utiliser les services de voyage du gouvernement.

## Réception et dépôt des deniers publics (Partie 10)

Au cours de 1975-1976, nous avons étudié les pratiques relatives à la réception et au dépôt des deniers publics de neuf ministères. L'étude a démontré qu'en général les pratiques ne permettaient pas d'exercer un contrôle approprié sur les rentrées de caisse, n'étaient pas conformes à l'application des règlements du Conseil du Trésor et entraînaient des retards dans le dépôt des recettes. Les faiblesses de contrôle sur l'établissement et l'utilisation des comptes de virements et des comptes de dépôt ont augmenté le risque de pertes ou de détournement de fonds publics et, de plus, ont retardé la transmission des recettes à la Banque du Canada.

En 1976-1977, nous avons examiné 16 autres ministères du gouvernement. Notre vérification a révélé des faiblesses semblables à celles qui avaient été signalées l'année précédente et a confirmé le bien-fondé des recommandations contenues dans mon Rapport de 1976.

## Utilisation de données statistiques pour déterminer certaines dépenses du gouvernement (Partie 10)

L'étude de la gestion et du contrôle financiers a révélé qu'une partie importante des dépenses du gouvernement fédéral était basée sur les données statistiques fournies par Statistique Canada et d'autres ministères. Au cours de l'année, le Bureau de la vérification a effectué un examen général portant sur l'utilisation des données statistiques à cette fin. Notre étude a révélé qu'il y avait peu de contrôles pour vérifier si ces données convenaient à ces utilisations secondaires.

Dans certains cas, ces données étaient inappropriées pour le calcul des dépenses. Plus particulièrement, des préjugés ont été décelés dans les données utilisées pour le calcul des paiements de péréquation aux provinces; il s'est produit des inégalités dans le paiement de prestations complémentaires aux prestataires d'assurance-chômage; toute une gamme de méthodes et de sources ont servi à obtenir des données statistiques sur la population; les ministères se servent de l'indice des prix à la consommation à des fins auxquelles il n'était pas destiné et pour lesquelles il se peut qu'il ne soit pas approprié. Nos constatations nous ont amené à la conclusion qu'on se servait beaucoup, aux fins de calcul des dépenses du gouvernement, de données statistiques conçues à d'autres fins particulières et qu'il y aurait lieu d'évaluer la justesse de ces applications. Nous recommandons que le Secrétariat du Conseil du Trésor entreprenne une vaste étude à ce sujet.

## Frais de voyage et de réinstallation (Partie 11)

En 1975-1976, le Bureau de la vérification a entrepris une étude des frais de voyage et de réinstallation visant à établir la mesure dans laquelle les ministères et les organismes se conformaient aux règlements, directives et lignes directrices du Conseil du Trésor, l'efficacité des contrôles exercés par le Conseil du Trésor et les ministères en vue d'assurer une utilisation rentable des fonds alloués à cette fin ainsi que l'exactitude de ces frais divulgués dans les Comptes publics. L'examen

Les Parties 10 à 12 de mon Rapport expliquent de façon détaillée le travail effectué par la direction des Vérifications spéciales et des Enquêtes en 1976-1977 et donnent nos recommandations afin de remédier à certaines lacunes partielles. Nous nous contentons ici de ne donner que les grandes lignes des constatations des études.

## Programme d'indemnités visant les importations de pétrole (Partie 10)

Le Programme d'indemnités visant les importations de pétrole a été lancé au début de 1974 dans le but d'atténuer, pour l'économie, les effets de la hausse rapide des prix du pétrole brut étranger consommé au Canada. Ce programme indemnise les importateurs de pétrole brut et de produits pétroliers de certaines hausses précises de prix, principalement celles reliées aux taxes et à la prise de participation décreées par les pays producteurs de pétrole. Pour avoir droit aux indemnités, les importateurs sont tenus de vendre leurs produits pétroliers importés ou les produits tirés du pétrole brut pour lequel ils sont indemnisés, aux prix de gros établis en vertu des lignes directrices de la Commission de lutte contre l'inflation sur les prix et les bénéfices. Le programme est administré par l'Office de répartition des approvisionnements d'énergie.

Mon Rapport de 1976 mentionnait qu'une trop grande indemnité de fret d'environ \$5 millions avait été versée à des importateurs qui avaient transbordé des cargaisons en route pour le Canada. Les calculs ultérieurs ont réduit ce chiffre à \$3.8 millions. L'Office de répartition des approvisionnements d'énergie a pris les mesures nécessaires en vue du recouvrement de ces paiements en trop.

L'Office de répartition des approvisionnements d'énergie reconnaît la nécessité d'effectuer des vérifications à l'égard de toutes les réclamations d'indemnités. Notre étude des réclamations et des rapports de vérification y relatifs a révélé que moins de 3% de l'indemnité totale de \$945 millions versée et débitée à l'année financière 1976-1977 avait été vérifiée. En outre, environ \$858 millions en paiements effectués au cours des deux années précédentes n'ont pas encore fait l'objet de rapports de vérification.

À notre avis, à condition que la vérification des paiements d'indemnités mentionnés au paragraphe précèdent ne révèle aucun écart important et sous réserve des commentaires ci-dessus concernant la trop grande indemnité de fret pour les cargaisons transbordées en route pour le Canada, les paiements, jusqu'au 31 mars 1977, ont été traités d'une façon appropriée et sont conformes à la loi, aux règlements et aux lignes directrices.

En ce qui a trait à la vérification de la limitation des prix, nous sommes convaincus que les niveaux de prix enregistrés au cours de la période allant de septembre 1974 jusqu'au 31 décembre 1976 n'ont pas dépassé ceux de janvier 1974, compte tenu des ajustements pour les augmentations de coûts admissibles. L'Office de répartition des approvisionnements d'énergie continue de surveiller si l'industrie du pétrole se conforme aux lignes directrices de la Commission de lutte contre l'inflation.

## VERIFICATIONS SPECIALES ET ENQUETES

### (Parties 10 à 12)

La direction des Vérifications spéciales et des Enquêtes du Bureau de la vérification entreprend et fait des études dont la portée est plus étendue que les travaux de vérification normaux au jour le jour. Des spécialistes du gouvernement ou du secteur privé ou des professionnels d'autres disciplines viennent s'ajouter au personnel interne, au besoin. Bien que chaque projet ait un mandat distinct, le but principal de chacun est de voir à ce que les méthodes de gestion et de contrôle financiers existantes, dans des secteurs précis, soient suffisantes.

En 1976-1977, la direction des Vérifications spéciales et des Enquêtes a effectué des études dans cinq secteurs des opérations gouvernementales:

- Programme d'indemnités visant les importations de pétrole
- Réception et dépôt des deniers publics
- Utilisation de données statistiques pour déterminer certaines dépenses du gouvernement
- Frais de voyage et de réinstallation
- Subventions et contributions

Mon Rapport de 1977 présente les constatations faites par suite de ces études ainsi que les observations sur les progrès accomplis dans trois secteurs supplémentaires étudiés au cours de l'année précédente et ayant fait l'objet de rapports:

- Bureaux
- Contrôles internes des systèmes de paie
- Taxe de vente de fabricant

L'étude des subventions et contributions est un projet s'étendant sur plusieurs années qui, éventuellement, examinera les activités d'environ 80 programmes de tous les ministères et organismes. À compter de 1977-1978, cet examen sera intégré aux opérations de vérification habituelles de mon Bureau.

Au cours de l'année dernière, la direction des Vérifications spéciales et des Enquêtes a entrepris une étude de la gestion et du contrôle financiers des contrats au sein du gouvernement fédéral. Les constatations de cette étude seront comprises dans mon Rapport de 1978.

Sept des huit études dont il est question dans le Rapport de cette année étaient des initiatives du Bureau de la vérification, à l'exception de l'enquête portant sur le Programme d'indemnités visant les importations de pétrole qui a été entreprise à la demande du gouverneur en conseil.



- dans la plupart des ministères examinés, on n'a pas porté suffisamment attention à la mise en application de bons contrôles de comptabilité financière sur les systèmes d'information; et
- le Conseil du Trésor n'a pas arrêté de normes et de procédures de contrôle minimums s'appliquant de façon particulière à l'information financière traitée par les systèmes d'information et l'évaluation des contrôles financiers de ces systèmes qu'on effectue les groupes de vérification interne des ministères et le Secrétaire du Conseil du Trésor n'a pas été suffisante pour garantir l'existence de contrôles appropriés.

M. Ruben J. Rosen, C.A., associé de Touche Ross & Co., que le Bureau a obtenu par l'intermédiaire du Programme de permutation des cadres, a assumé la direction de l'étude E.S.I.I. Il a été aidé dans cette tâche par un comité directeur composé de plusieurs associés des cabinets collaborant à l'étude et de plusieurs membres de la haute direction de notre Bureau. En voici les noms:

Donald A. Brown, C.A.	Coopers & Lybrand
John Callum, C.A.	Clarkson, Gordon & Co.
Colin Campbell, C.A.	Touche Ross & Co.
Keith Dorricott, F.C.A.	Deloitte, Haskins & Sells
Ronald G. Gage, F.C.A.	Clarkson, Gordon & Co.
Raymond H. Healey, P. Eng, C.A.	Thorne Riddeil & Co.
Robert D. Humfrey, R.I.A.	Peat, Marwick and Partners
D. Larry Meyers, P. Eng, C.A.	Bureau du Vérificateur général
Erik Peters, C.A.	Bureau du Vérificateur général
Larry W. Shick, P. Eng.	Price Waterhouse Associates

M. Rosen et les membres du comité directeur m'ont fait savoir qu'ils appuyaient tous, sans réserve, les conclusions générales de l'étude décrites plus haut.

Dans son examen du système de prestations et de trop-payés de la Commission d'assurance-chômage, dont il est fait mention dans la Partie 6 de mon Rapport, l'étude E.S.I.I. fait état de sérieuses faiblesses de contrôle du système, lesquelles peuvent entraîner le paiement de prestations par la Commission par suite d'erreurs ou de manoeuvres frauduleuses. La Commission avait elle-même décelé plusieurs paiements de cette nature grâce à certains de ses contrôles. Compte tenu de ces circonstances, j'ai jugé nécessaire, avant d'exprimer mon opinion sur les états financiers de la Commission pour l'année terminée le 31 décembre 1976, d'obtenir en surcroît l'aide de spécialistes et de professionnels afin d'évaluer, par des sondages scientifiques et en tenant compte de l'importance relative, le volume des trop-payés de prestations qui étaient passés inaperçus et l'importance des faiblesses de contrôle que décrivait l'étude E.S.I.I.

J'ai jugé nécessaire, par suite des résultats de cette enquête complémentaire, d'inclure dans mon rapport au ministre de l'Emploi et de l'Immigration sur les états financiers de la Commission, une question qui, à mon avis, devait être portée à l'attention du Parlement, c'est-à-dire la nécessité pour la Commission d'améliorer ses méthodes de contrôle sur le paiement aux bénéficiaires de prestations initiales et de prestations complémentaires.



# ÉTUDE PORTANT SUR L'ÉVALUATION DES SYSTÈMES D'INFORMATION ET D'INFORMATION

(Parties 3 à 6)

L'étude portant sur l'évaluation des systèmes d'information et d'information (É.S.I.I.) comportait un examen et une évaluation en profondeur des contrôles concernant le système d'information utilisé par le gouvernement fédéral. Cette étude, qu'annonçait mon Rapport de 1976, vient compléter l'étude de la gestion et du contrôle financiers effectuée au cours des trois dernières années. Cette dernière étude a surtout porté sur l'efficacité globale des systèmes de gestion et de contrôle financiers au sein du gouvernement fédéral; on n'a pas cherché à étudier de façon particulière l'élément informatique de ces systèmes ou la gestion gouvernementale de l'information.

Quarante vérificateurs et spécialistes en informatique, provenant de cabinets canadiens d'experts-comptables ou d'experts-conseils et embauchés en vertu du Programme de permutation des cadres de la Commission de la Fonction publique ou en vertu de contrats de services professionnels, ont travaillé à l'É.S.I.I. De plus, vingt-cinq professionnels du Bureau de la vérification y ont participé.

De façon générale, l'étude É.S.I.I. portait sur deux sujets distincts: premièrement, l'évaluation du contrôle de gestion exercé sur les ressources et les dépenses relatives à l'information; et deuxièmement, l'évaluation des contrôles exercés à l'égard de l'information traitée par ordinateur.

Les Parties 3, 4 et 5 de mon Rapport contiennent des observations et des recommandations s'appuyant sur l'étude É.S.I.I. et s'appliquant à l'ensemble du gouvernement. La Partie 6 contient les conclusions découlant de notre examen des contrôles financiers de neuf importants systèmes d'information. Les conclusions générales, reproduites dans la Partie 3, sont les suivantes:

- **Contrôle de gestion sur les ressources de l'information.** D'importantes améliorations sont nécessaires et peuvent être apportées au processus par lequel les ressources de l'information du gouvernement sont administrées et contrôlées, à la fois par les ministères, qui sont responsables de la gestion de ces ressources, et par le Secrétaire du Conseil du Trésor qui assume la responsabilité à la grandeur du gouvernement du contrôle et de la coordination de l'utilisation de ces ressources.

- **Contrôles sur l'information financière traitée par ordinateur.** Les contrôles exercés sur certains systèmes d'information examinés, systèmes qui traitent et comptabilisent plusieurs millions de dollars des deniers publics, ne permettent pas de vérifier si l'information financière traitée est exacte, complète et autorisée comme il convient:

Dans mon Rapport de 1975, m'appuyant sur les résultats des conclusions formulées après la première année de l'Étude sur la gestion et le contrôle financiers, j'ai déclaré qu'il fallait apporter des améliorations importantes au système de vérification interne dans tous les secteurs du gouvernement si l'on désirait en faire un outil efficace et sûr de contrôle financier. La direction de l'Administration financière du Secrétariat du Conseil du Trésor a entrepris l'étude de cette question et a dernièrement produit un exposé-sondage sur un nouveau manuel traitant des normes de vérification interne au sein du gouvernement canadien. L'élaboration par le Secrétariat de cet exposé-sondage a permis que l'on prenne davantage conscience, dans l'ensemble du gouvernement, de l'importance de la vérification financière interne.

Mon Bureau s'intéresse aux vérifications effectuées au sein du gouvernement fédéral pour deux raisons. Premièrement, puisque notre nouveau mandat officiel défini par la Loi sur le vérificateur général nous demande de vérifier si les sommes d'argent sont dépensées en tenant compte des principes d'économie et d'efficacité et s'il existe des procédés satisfaisants pour mesurer l'efficacité des programmes, - bref, si l'on reçoit une juste valeur en contrepartie de l'argent dépensé - il nous incombe de préciser la nature, l'étendue et l'efficacité des travaux effectués non seulement par les groupes s'occupant de vérification financière interne mais également par les groupes effectuant des "vérifications de gestion" ou des "vérifications coût-efficacité". En deuxième lieu, le travail accompli par tous ces groupes constitue un facteur dont il nous faut tenir compte pour déterminer la nature, les calendriers et l'étendue de nos propres procédés de vérification. C'est pourquoi j'ai dernièrement mis sur pied une étude visant à évaluer si l'ensemble des activités de vérification au sein du gouvernement fédéral, y compris celle effectuée par mon propre Bureau, constituait une opération pour laquelle il y avait "valeur reçue en contrepartie de l'argent dépensé", s'il y avait double emploi ou chevauchement et, dans l'affirmative, si le fait d'apporter des modifications aux programmes de vérification existants pouvait les réduire ou les éliminer.

constatations, les recommandations et les mesures prises avec les méthodes de gestion et de contrôle financiers au sein de leurs organismes; et (3) prennent des mesures visant à corriger les lacunes avant que ne déboutent nos études de cette année. Malheureusement, il semble que très peu de fonctionnaires supérieurs des finances au sein des ministères et des organismes que nous avons étudiés cette année aient agi dans ce sens.

La Partie B de mon Rapport énumère et commente les mesures correctives prises ou prévues à la fin du mois d'août 1977 pour donner suite aux 34 recommandations principales s'adressant à l'ensemble du gouvernement et formulées à la suite de notre examen, en 1975, des méthodes de gestion et de contrôle financières utilisées dans les ministères et les organismes du gouvernement. Bien qu'il soit encore trop tôt pour affirmer devant le Parlement que les mesures prises remédieront aux problèmes que nous avons signalés, il est évident qu'on est davantage conscient et que l'on accepte davantage l'idée qu'il est nécessaire d'améliorer la gestion et le contrôle financiers au sein du gouvernement.

Il n'y a eu que des progrès très modestes au chapitre des modifications concrètes destinées à corriger les principales faiblesses de contrôle interne. De plus, le compte tenu de l'information déjà établie et divulguée dans le cadre de l'étude de la gestion et du contrôle financiers, on a sans doute consacré plus d'efforts qu'il n'était nécessaire à mettre sur pied des études et à constituer des comités interministériels alors qu'il aurait fallu prendre rapidement des mesures destinées à corriger les lacunes importantes signalées. Mais, comme le soulignaient mes rapports de 1975 et de 1976, cette attitude est sans doute le reflet de la faiblesse de la gestion et du contrôle financiers au chapitre des structures et des méthodes, faiblesse qui s'étend apparemment à l'ensemble du gouvernement depuis nombre d'années. C'est là le principal défi qu'aura à relever le Contrôleur général, c'est-à-dire fournir un leadership qui favorise la réalisation de mesures concrètes.

Dans mon Rapport de 1975, j'ai recommandé qu'une étude approfondie soit entreprise dans le but de modifier la présentation du Budget des dépenses afin que les renseignements qu'il renferme soient, pour le Parlement, plus significatifs et plus utiles et que le Budget des dépenses approuvé constitue la pièce maîtresse d'un système gouvernemental de contrôle des dépenses pleinement efficace tant pour les unités organisationnelles les plus importantes que pour les unités les plus modestes pour lesquelles il est avantageux d'utiliser la comptabilité par centres de responsabilité et la méthode des coûts variables.

Bien que cette recommandation ait reçu un appui massif des membres du Comité des comptes publics et que les cadres du Conseil du Trésor y aient souscrit en principe, aucune mesure concrète n'a jusqu'à présent été prise soit à cause d'un manque de ressources ou pour quelque autre raison que nous ne connaissons pas. J'ai été avisé dernièrement, par un haut fonctionnaire, qu'il existe quelque incertitude quant à la nature précise des améliorations suggérées. Afin de préciser les objectifs et de favoriser ainsi la prise de mesures concrètes, j'ai mis sur pied un projet servant à illustrer ce que je recommande et utilisant, chaque fois que la chose est possible, des informations que l'on trouve présentement dans les ministères. J'espère que la divulgation des résultats de ce projet, lorsqu'ils seront disponibles, permettra d'accélérer les améliorations à apporter à la présentation du Budget des dépenses.

J'ai également recommandé que l'on précise davantage les responsabilités confiées aux vérificateurs des sociétés de la Couronne et qu'il soit tenu compte du rapport du Comité permanent des comptes publics présenté le 7 juillet 1977 à la Chambre des communes et qui contenait un certain nombre de recommandations importantes sur les sociétés de la Couronne.

En ce qui concerne les vérifications effectuées auprès des sociétés de la Couronne dont le Vérificateur général a été nommé vérificateur, j'ai l'intention de procéder comme je le fais pour les autres entités gouvernementales financières, partiellement ou entièrement, à l'aide des deniers publics, c'est-à-dire qu'à leur égard j'utiliserai les mêmes normes de vérification et ferai rapport de façon aussi exhaustive qu'il est prévu dans la Loi sur les vérificateurs général. Sans aucun doute, ces exigences valent également pour les vérificateurs du secteur privé à qui il sera demandé de vérifier des sociétés de la Couronne ou des sociétés possédées ou contrôlées par l'État et financières, partiellement ou entièrement, à l'aide de fonds votés par le Parlement. Toutefois, il serait souhaitable que cette obligation soit précisée dans un nouveau texte de loi.

Dans le cas des sociétés possédées et contrôlées par l'État et qui sont commercialement rentables, il est possible d'utiliser des critères financiers s'apparentant à ceux qu'utilise le secteur privé lorsque l'on désire évaluer la valeur globale de leur rendement. Toutefois, indépendamment des autres critères financiers, et compte tenu de l'importance accrue accordée à l'imputabilité, il me semble raisonnable et justifié d'exiger que s'appliquent de façon uniforme les lignes directrices et les normes de vérification et de présentation des rapports à toutes les entités pour lesquelles sont utilisés des deniers publics. La Loi sur le vérificateur général indique clairement la voie à suivre à ce sujet.

## **Fin de l'étude de la gestion et du contrôle financiers (Parties 7 et 8)**

L'étude de la gestion et du contrôle financiers, qui a débuté en mai 1974, a évalué la justesse de la gestion et du contrôle financiers des ministères, organismes et sociétés de la Couronne qui sont vérifiées par mon Bureau. Cette année, des études ont été effectuées auprès des entités restantes comprises dans le mandat initial du groupe d'étude, terminant la première série d'études, entreprises en 1974, des méthodes de gestion et de contrôle financiers. Au cours des trois dernières années, il y a eu publication de 82 rapports distincts, totalisant plus de 3,000 pages, au titre d'études détaillées effectuées auprès de 50 ministères et organismes, de 28 sociétés de la Couronne, de deux sociétés non inscrites dans les annexes de la Loi sur l'administration financière et des administrations territoriales du Yukon et des Territoires du Nord-Ouest.

Les études de cette année, dont il est question à la Partie 7 et à l'Annexe D de mon Rapport, signalent un certain nombre de lacunes importantes au plan de la gestion et du contrôle financiers et semblables à celles divulguées au cours des années précédentes. Les fonctions financières à l'intérieur de la plupart des ministères et des organismes présentant certains points communs, on aurait pu logiquement s'attendre à ce que les fonctionnaires supérieures des finances des ministères et organismes étudiés cette année: (1) étudient les observations que contenait mon Rapport de 1975 et les procès-verbaux de 1976 et de 1977 du Comité des comptes publics traitant des résultats de l'étude; (2) comparent les



Dans le cas de la plupart des sociétés de la Couronne vérifiées par le Vérificateur général, la gestion et le contrôle financiers sont faibles et inefficaces. En outre, la coordination et l'orientation provenant des organismes centraux du gouvernement visant les pratiques de gestion et de contrôle financiers n'existent pratiquement pas dans ces sociétés.

Nos recommandations s'appliquant à l'ensemble du gouvernement, ainsi que les recommandations plus spécifiques visant certaines sociétés de la Couronne, avaient pour but de fournir au Parlement et au gouvernement l'assurance que les activités des sociétés de la Couronne financées, en tout ou en partie, à l'aide des deniers publics étaient soumises à un contrôle financier efficace.

Le 18 août 1977, le Président du Conseil privé, à la suite d'une étude effectuée par le Bureau du Conseil privé, publiait un document intitulé "Propositions du gouvernement du Canada - direction, contrôle et imputabilité des sociétés de la Couronne". Dans l'introduction de ce document on lit ce qui suit:

Le gouvernement a décidé de publier maintenant le présent document afin de stimuler les discussions et les interventions du public, et de permettre à ses membres de prendre connaissance et tenir compte des commentaires de la Commission royale d'enquête sur la gestion financière et l'imputabilité, de l'Auditeur général, du public intéressé et, bien entendu, des sociétés de la Couronne elles-mêmes, avant que soit présenté au Parlement un projet de loi d'ensemble sur les sociétés de la Couronne.

Le 17 août, le Premier ministre m'a fait parvenir un exemplaire de ce document et m'invitait à lui faire connaître mes observations et mes commentaires sur les diverses propositions.

J'étais heureux de pouvoir formuler des commentaires sur les propositions du gouvernement. En octobre 1977, j'ai répondu au Premier ministre et j'ai joint à ma lettre un mémoire où j'analysais les répercussions des propositions du gouvernement sur chacune des 18 recommandations contenues dans la Partie 5 de mon Rapport de 1976. Ce mémoire et cette lettre se trouvent à la Partie 9 du Rapport courant.

Dans ma lettre j'indiquais brièvement que ces propositions, à mon avis, constituaient une preuve nette et des mieux accueillie du désir qu'a le gouvernement de corriger les lacunes décelées dans le cadre de l'étude effectuée par mon Bureau, sur la gestion et les contrôles financiers des sociétés de la Couronne. J'y soulignais également qu'il ne pourrait y avoir d'évaluation complète de ces propositions avant que mon Bureau ait pu étudier:

- les annexes révisées de la Loi sur l'administration financière où sont nommées les sociétés possédées ou contrôlées par le gouvernement et qui sont désignées comme sociétés de la Couronne; et

- l'exposé de principes qui, selon les propositions, doit être présenté à la Commission royale d'enquête sur la gestion financière et l'imputabilité afin d'expliquer les systèmes et procédés administratifs que le gouvernement se propose de mettre en place pour réaliser les objectifs des propositions et le nouveau texte de loi sur les sociétés de la Couronne qui s'y rapporte.

Depuis la présentation de mon Rapport de 1976, le gouvernement a instauré d'autres mesures concrètes, constructives et importantes. Toutes ont une grande répercussion sur le contrôle financier et je traite de certaines d'entre elles dans des paragraphes subséquents de la présente Partie. Parmi ces mesures, il y a :

- L'annonce, le 16 décembre 1976, par le Président du Conseil du Trésor, d'une politique et de lignes directrices nouvelles du gouvernement touchant les pratiques commerciales des sociétés de la Couronne;
- L'adoption par le Parlement de la première Loi sur le vérificateur général et sa promulgation par le gouverneur général, la Loi entrant en vigueur le 1<sup>er</sup> août 1977;
- L'octroi par le Parlement, à la demande du gouvernement, d'une augmentation importante des ressources destinées au Bureau de la vérification, par le biais du Budget des dépenses principal de 1976-1977; et

- La publication, le 18 août 1977, par le Président du Conseil privé, d'un document établissant les propositions du gouvernement au titre du contrôle, de la direction et de l'imputabilité des sociétés de la Couronne.

Dans leur ensemble, les mesures prises par le gouvernement et le Parlement comprennent, dans les termes que j'ai utilisés dans mon Rapport de 1976, des "mesures fermes, appropriées et efficaces" permettant éventuellement de posséder un système satisfaisant de gestion et de contrôle financiers et de redonner au Parlement un niveau approprié de contrôle sur les deniers publics. L'atteinte de cet objectif exigera une planification minutieuse, l'utilisation rationnelle de ressources professionnelles adéquates et de nombreuses et longues heures de travail. Mais, le plus important, c'est qu'on a renversé la vapeur et qu'un nouveau départ, dans la bonne direction, a été donné. Actuellement (octobre 1977) la question la plus importante est le choix et la nomination d'une personne éminemment compétente au poste de Contrôleur général du Canada. La personne choisie devra assumer une tâche très exigeante. Elle devra compter sur l'appui entier du Ministre dont elle relève, le Président du Conseil du Trésor, du gouvernement et de ses collègues, les sous-chefs et les présidents-directeurs généraux des divers ministères, organismes et sociétés de la Couronne. Mes collègues du Bureau de la vérification et moi offrons au Contrôleur général notre collaboration pleine et entière.

## **Propositions du gouvernement - Direction, contrôle et imputabilité des sociétés de la Couronne (Partie 9)**

La Partie 5 de mon Rapport de 1976 donnait en résumé les résultats de notre analyse des rapports financiers existant entre le Parlement, le gouvernement et les sociétés de la Couronne et soulignait d'importantes faiblesses, au titre d'activités de gestion et de contrôle financiers internes, communes à plusieurs sociétés de la Couronne que nous avons étudiées. Nous avons formulé dix-huit recommandations principales s'appliquant à l'ensemble du gouvernement. La conclusion générale de notre étude de la gestion et du contrôle financiers des sociétés de la Couronne était la suivante :

Couronne, comportant des modifications d'importance à la Partie VIII de la Loi sur l'administration financière, serait présentée à la Chambre des communes une fois terminée l'étude sur les sociétés de la Couronne qu'était en train d'effectuer le Bureau du Conseil privé. En deuxième lieu, il faisait part de l'intention du gouvernement de créer le poste de Contrôleur général du Canada qui aurait rang et statut de sous-ministre et qui relèverait directement du Président du Conseil du Trésor.

Au sujet du Contrôleur général, M. Andras a alors déclaré ce qui suit:

Monsieur le président, après une série d'entretiens personnels constructifs, longs et détaillés avec le Vérificateur général lui-même, je suis heureux de vous faire part que nous avons été en mesure d'éclaircir le sens de sa recommandation et de parvenir, par conséquent, à une entente claire des fonctions, des responsabilités et des relations hiérarchiques que le gouvernement établira pour le Contrôleur général. J'ai été rassuré de constater, Monsieur le président, qu'il n'y a jamais eu de différence réelle entre, d'une part, l'objectif déclaré du gouvernement de renforcer d'avantage les contrôles administratifs et de supprimer les faiblesses et le gaspillage et, d'autre part, les opinions du Vérificateur général sur ces questions...

En termes généraux, le Contrôleur général sera chargé, après du Conseil du Trésor, de la qualité et de l'harmonie des contrôles, des politiques et des pratiques d'administration financière en usage dans toute la Fonction publique fédérale. La grande partie des responsabilités de cette nouvelle fonction comprendront celles qui ont été attribuées à la direction de l'Administration financière du Secrétariat du Conseil du Trésor, créée en mars 1976. Il existera un rapport "fonctionnel" particulier entre le Contrôleur général et les administrateurs financiers en chef des ministères, des organismes et des sociétés de la Couronne, ce qui permettra ainsi au Contrôleur d'assurer l'orientation nécessaire tout en maintenant le principe de gestion décentralisée qui a été adopté à la suite des recommandations de la Commission Glasco...

Cette nomination, qui demande une restructuration importante du Secrétariat du Conseil du Trésor, réitérera notre détermination de maintenir les plus hautes normes de contrôle par la création d'un poste qu'on pourrait mieux décrire comme étant celui d'administrateur financier en chef de la Fonction publique fédérale".

D'après les entretiens que j'ai eus avec le Ministre, je suis convaincu que le gouvernement et lui comprennent et partagent pleinement mon opinion à savoir qu'il est de la plus haute importance de choisir une personne éminemment compétente comme premier Contrôleur général du Canada, poste qui, pour moi et pour les experts-comptables chevronnés qui ont fait partie du comité de conseillers indépendants auprès de mon Bureau, constitue le poste de direction financière le plus important et le plus exigeant au Canada tant au sein du secteur public que du secteur privé. J'ai appris que, depuis plusieurs mois, on était à la recherche de candidats, dans la Fonction publique et auprès d'organismes commerciaux et industriels importants, qui puissent satisfaire aux exigences de ce poste important. On en serait actuellement (octobre 1977) aux dernières étapes de ce processus.



gouvernement de voir clarifié ou résolu aussi rapidement et efficacement que possible, l'ensemble complexe de questions tant techniques que politiques soulevées par certaines recommandations précises de l'Auditeur général.

Dans une interview qu'il accordait à la presse quelques jours plus tard, M. Lambert disait avoir informé le gouvernement que:

*(Traduction)*

La Commission royale ne s'oppose pas à ce que l'on donne suite à une partie ou à la totalité des recommandations de l'Auditeur général, y compris celle concernant la création du poste de Contrôleur général, et que cela ne nuirait en rien aux travaux de la Commission.

Peu après l'annonce par M. Andras de la mise sur pied de la Commission royale d'enquête, nous avons tous deux amorcé une série de rencontres qui se sont étendues sur plusieurs mois et au cours desquelles nous avons discuté en détail du travail accompli et des raisons qui avaient justifié la formulation dans mon Rapport de 1976 des trois recommandations fondamentales. Nous avons pu ainsi mieux connaître nos perceptions réciproques des graves lacunes de la gestion et du contrôle financiers au sein du gouvernement.

C'est avec plaisir que j'ai pris connaissance de la déclaration suivante du Président du Conseil du Trésor, à la Chambre des communes, le 9 décembre 1976, laquelle constitue une réponse constructive à une des trois recommandations que je jugeais essentielles:

La Fonction publique compte environ 1,800 agents financiers, mais le Conseil du Trésor convient volontiers avec l'Auditeur général que ce n'est pas suffisant. Trop d'activités de gestion et de contrôle financiers sont confiées à des commis et à des employés qui, souvent, ne possèdent pas la compétence nécessaire. Bon nombre de ministères et d'organismes n'ont pas encore promu leur principal agent financier au poste qu'il devrait occuper dans la hiérarchie de la gestion pour maintenir ou améliorer les normes d'administration financière ... A mon avis, cette personne devrait rendre compte de l'activité financière non pas par l'entremise d'un autre employé, mais directement, au moins au sous-ministre du ministère, au président du conseil administratif ou au président de la société de la Couronne, et nous nous efforçons de garantir que c'est ce qui se passe dans presque tous les cas, sauf pour quelques conseils très petits où la situation peut être quelque peu différente.

En réponse à une question du chef de l'opposition, M. Andras a dit qu'en ce qui concerne les ministères, ces personnes seraient en général au niveau de sous-ministre adjoint.

Le 25 avril 1977, à la Chambre des communes, M. Andras présentait en seconde lecture le Bill C-20, la Loi sur le vérificateur général. (M. Andras avait également fait la présentation de ce Bill en première lecture, le 1<sup>er</sup> novembre 1976.) Ce même 25 avril, le Ministre annonçait deux autres événements de grande importance en ce qui concerne les questions dont traitait mon Rapport de 1976. Premièrement, il indiquait qu'une nouvelle loi d'ensemble sur les sociétés de la



- deuxièmement, la nomination à ce poste d'une personne possédant les qualités professionnelles requises, dont les antécédents montrent une compétence et des réalisations, à des niveaux supérieurs de responsabilité, remarquables et reconnus et ayant une vaste expérience de la haute direction financière au sein d'un organisme de grande envergure dans le secteur privé ou public au Canada;

- troisièmement, la nomination dans chaque ministère, organisme et société de la Couronne d'un fonctionnaire (cadre) supérieur des finances, portant de préférence le titre de Contrôleur (et portant, s'il y a lieu, un autre titre tel que celui de sous-ministre adjoint, dans le cas des ministères, et celui de vice-président, dans le cas des sociétés de la Couronne), qui relèverait directement du sous-chef ou du président-directeur général pour toutes les questions d'administration financière au sein de son organisation et qui posséderait les qualités professionnelles et personnelles, ainsi que l'expérience de la haute direction financière, correspondant aux responsabilités qui lui sont confiées.

J'ai de plus affirmé que l'application concrète de ces recommandations permettrait de jeter les bases essentielles d'un programme rationnel destiné à rétablir un contrôle efficace et à assurer une gestion équitable, judicieuse et avantageuse des deniers et des biens publics. J'étais persuadé que le gouvernement, le Parlement et, également, les contribuables endosseraient ces objectifs.

Immédiatement après la présentation, le 22 novembre 1976, de mon Rapport de 1976 à la Chambre des communes, l'honorable Robert Andras, alors récemment nommé Président du Conseil du Trésor, annonçait la mise sur pied d'une Commission royale d'enquête sur l'organisation financière et l'imputabilité au sein du gouvernement du Canada. La Commission avait à sa tête M. Allen T. Lambert, président du conseil d'administration de La Banque Toronto-Dominion, et en étaient membres M. Robert Després, président de l'Université du Québec, le professeur J.C. Hodggets, de l'Université de Toronto, et M. O.G. Stoner, haut fonctionnaire fédéral qui avait alors rang de sous-ministre de l'Industrie et du Commerce.

Dans un commentaire sur le mandat de la Commission, M. Andras a fait remarquer que ce mandat visait deux objectifs essentiels, c'est-à-dire faire enquête et faire rapport sur les structures, les systèmes et les procédés qui permettaient:

- obtenir, de façon assurée, à tous les niveaux et dans tous les ministères et organismes fédéraux, une gestion et un contrôle financiers conformes aux normes d'excellence les plus élevés; et
- assurer une responsabilité administrative efficace des sous-ministres et des chefs des organismes de la Couronne à l'égard du gouvernement et, s'il y a lieu, à l'égard du Parlement.

Il a de plus ajouté que:

Le premier objectif de l'enquête reflète la mesure dans laquelle le gouvernement partage le souci de l'Auditeur général exprimé dans son Rapport à la Chambre des communes pour l'année financière 1975-1976. Le second objectif de l'enquête reflète la détermination du

## ÉTUDE DE LA GESTION ET DU CONTRÔLE FINANCIERS

(Parties 2, 7, 8 et 9)

Mesures prises par le gouvernement pour améliorer la gestion et le contrôle financiers (Partie 2)

J'ai indiqué dans mon Rapport annuel de 1976 que je m'inquiétais du fait que le Parlement - et, en réalité, le gouvernement - ne contrôlait plus de façon efficace l'utilisation des deniers publics, ou semblait près de perdre ce contrôle. J'affirmais également, qu'après avoir évalué l'ensemble des conclusions de ces deux années que mon Bureau a consacrées à l'étude de la gestion et du contrôle financiers du gouvernement, il me fallait obligatoirement conclure comme il suit:

*L'étude des systèmes utilisés par les ministères, organismes et sociétés de la Couronne vérifiés par l'Auditeur général démontre que la gestion et le contrôle financiers au sein du gouvernement canadien sont fonctionnellement inadéquats. De plus, cette situation continuera d'exister à moins que le gouvernement ne prenne des mesures fermes, appropriées et efficaces en vue de corriger cette situation vraiment très sérieuse.*

Comme l'indiquait mon Rapport, je n'ai formulé cette opinion qu'après mûre réflexion. Je m'appuyais alors sur les conclusions formulées dans mon Rapport de 1975 après la première année de l'étude de la gestion et du contrôle financiers des ministères et des organismes, sur les résultats de notre contrôle, en 1976, des mesures prises par le gouvernement pour corriger cette malheureuse situation et sur les conclusions détaillées de notre étude de la gestion et du contrôle financiers des sociétés de la Couronne que résument les 18 recommandations reproduites dans la Partie 5 de mon Rapport de 1976.

Mon opinion faite, j'ai créé un précédent en formulant trois recommandations que je jugeais essentielles pour résoudre de façon précise, sur le plan opérationnel, les sérieux problèmes que signalaient mes Rapports de 1975 et de 1976. Ces recommandations représentaient, de façon très succincte, une synthèse de centaines de recommandations détaillées formulées à la suite de notre étude de la gestion et du contrôle financiers des ministères, des organismes et des sociétés de la Couronne. Des professionnels de mon Bureau et des représentants de niveau supérieur d'importants cabinets canadiens d'experts-comptables, obtenus par l'intermédiaire du Programme de permutation des cadres de la Commission de la Fonction publique et en vertu de contrats de services professionnels, ont consacré plus de 100,000 heures à cette étude. Voici quelles étaient ces trois recommandations:

- premièrement, la création d'un poste de chef de l'administration financière du gouvernement, portant de préférence le titre de Contrôleur général du Canada;

de la valeur reçue en contrepartie de l'argent dépensé aura d'importantes répercussions sur les activités du Bureau de la vérification et redéterminera, pour le gouvernement actuel, l'obligation de rendre compte au Parlement de la gestion et du contrôle efficaces des deniers publics.

Le Bill C-20 comprenait également des articles, très semblables à ceux d'un projet précédent, mettant en vigueur les importantes propositions du Comité indépendant de révision touchant l'indépendance professionnelle et administrative du Vérificateur général et de son Bureau. Un autre article conséquent permet au Vérificateur général d'adresser un rapport spécial à la Chambre des communes sur toute affaire d'une importance ou d'une urgence telles qu'elle ne saurait, à son avis, attendre la présentation du Rapport annuel. Finalement, un article apparemment sans grandes répercussions, mais cependant vital, prévoit que le Vérificateur général peut faire tout examen ou enquête qu'il juge nécessaire afin de présenter son rapport selon les exigences de la nouvelle Loi!

Le 26 avril 1977 avait lieu à la Chambre des communes la seconde lecture du Bill C-20, lequel, par après, fut renvoyé au Comité permanent des comptes publics. Du 17 mai au 14 juin, le Comité a tenu cinq audiences sur ce Bill et le Président du Conseil du Trésor a assisté à la plupart d'entre elles. Ces audiences ont donné lieu à des échanges de vues franches et positives entre M. Andras, représentant du gouvernement, et tous les membres du Comité. Dans son premier rapport à la Chambre des communes, daté du 15 juin 1977, le Comité a fait rapport de ses délibérations et a proposé un certain nombre de modifications destinées à améliorer le Bill. Ces modifications ont été acceptées par la Chambre et la troisième lecture du Bill a eu lieu le 29 juin.

Le 5 juillet, j'ai assisté à une réunion du comité des finances nationales du Sénat qui effectuait l'étude du Bill après sa seconde lecture au Sénat. Une fois voté au Sénat, le Bill a reçu la sanction royale le 14 juillet 1977, a été promulgué et est entré en vigueur le 1<sup>er</sup> août 1977.

Cette première Loi sur le vérificateur général représente, pour moi et mes collègues du Bureau de la vérification, une étape importante dans l'histoire du Bureau et constitue un texte de loi qui fera époque et qui sans doute influera sur la vérification d'autres administrations gouvernementales, au niveau des provinces, au Canada, et sur le plan international. Cette explication des fonctions et des responsabilités du Vérificateur général ainsi que de son indépendance, qui fait maintenant partie de la législation canadienne, fera époque, non seulement pour le Bureau de la vérification, mais également pour le Parlement et pour tous les Canadiens. Tous peuvent s'attendre à bénéficier des meilleurs moyens mis à la disposition du Vérificateur général en vue de l'accomplissement du rôle qu'il doit jouer au service du Parlement. Nous sommes particulièrement heureux au Bureau de la vérification d'avoir reçu du Parlement, avant que ne débute le deuxième centenaire du Bureau, un nouveau mandat et une autonomie professionnelle et administrative accrue.

La Loi sur le vérificateur général est reproduite intégralement à l'Annexe B du présent Aperçu général.

A mon avis, et selon les vérificateurs législatifs du Canada et d'autres, cette analyse et cette évaluation en profondeur de la fonction et des attributions précises du Vérificateur général, et de la façon dont il doit s'en acquitter, serviront de point de repère et de guide, au niveau national et même au niveau international, pour nombre d'années à venir. Je m'estime très heureux que des représentants aussi distingués des professions juridiques et comptables du Canada aient accepté d'entreprendre cette tâche difficile et importante, dans l'intérêt du Parlement et de tous les Canadiens. Je souscris sans réserve aux recommandations du rapport et je suis convaincu que la meilleure façon de remercier le Comité indépendant de révision de son excellent travail consiste à donner rapidement suite à ses recommandations.

Le 1<sup>er</sup> novembre 1976, le Président du Conseil du Trésor présentait en première lecture à la Chambre des communes le Bill C-20, "Loi concernant le bureau du vérificateur général du Canada et les matières connexes", marquant ainsi le point culminant d'une longue suite d'événements menant à cet objectif historique. Ce Bill, préparé avec l'avis de mon Bureau, regroupe, de façon très efficace, toutes les recommandations clés du Comité indépendant de révision.

L'une des plus importantes recommandations du Comité était que le Vérificateur général devait signaler dans son Rapport annuel les cas où il remarquait que la valeur reçue ne correspondait pas aux deniers publics dépensés. Dans son rapport, le Comité disait à ce sujet:

Le droit du Vérificateur général de faire rapport sur cet aspect des dépenses gouvernementales a été mis en doute, même ces dernières années. Par exemple, on a affirmé que l'intention de la loi actuelle était de restreindre le Vérificateur général à faire rapport uniquement sur la régularité des dépenses, sans s'occuper de savoir si l'argent a été dépensé de façon économique ou efficace. Cette interprétation étroite semble incompatible avec ce que nous croyons comprendre des intentions du Parlement lorsqu'il vote des fonds pour un objet déterminé. En effet, lorsqu'il accorde des fonds, le Parlement fait certainement confiance à l'administration non seulement en ce qui concerne leur utilisation pour des objets précis, mais aussi, en ce qui concerne la prudence avec laquelle elle va dépenser l'argent qui lui a été confié à titre de fiduciaire, c'est-à-dire en tenant compte de l'économie et de l'efficacité. En d'autres termes, on s'attend que le gouvernement cherche à obtenir une valeur raisonnable en contrepartie de l'argent qu'il dépense.

...L'administration et le Vérificateur général ont le souci commun de veiller à la bonne utilisation des fonds publics. Le Vérificateur général devrait donc s'intéresser de façon particulière aux activités de l'administration orientées vers la mesure de l'efficacité, et ce, jusqu'au point de surveiller les progrès de telles recherches.

Il est discuté de façon plus détaillée des répercussions de cette recommandation et de ma réponse à celle-ci aux pages 36 et 37 du présent Aperçu général et dans les Parties 2 et 19 de mon Rapport de 1977. La mise en application de la vérification



## LA LOI SUR LE VÉRIFICATEUR GÉNÉRAL

### (Parties 2 et 19)

Vers la fin des années 60 et le début des années 70, on a rédigé trois projets de loi concernant le Bureau du vérificateur général. En 1969, le Vérificateur général, dans son Rapport annuel, en a publié un; à l'automne de 1970, un autre a été présenté à la Chambre des communes par le Président du Conseil du Trésor, lequel se fondait sur un rapport du Comité permanent des comptes publics, publié plus tôt au début de cette année-là; et un troisième a été préparé, en 1973, au nom du Comité permanent des comptes publics, mais il n'a jamais été publié.

En octobre 1973, suite à ma nomination au poste de Vérificateur général le 1<sup>er</sup> juillet de la même année, lors de ma première participation aux délibérations du Comité permanent des comptes publics, j'ai fait les commentaires suivants sur les propositions du comité de rédaction de la nouvelle loi:

Cependant, parce que le mandat du comité de rédaction n'incluait pas une étude des fonctions du Vérificateur général, j'ai l'impression qu'on n'a pas étudié ses fonctions et responsabilités, la portée de ses vérifications, la nature et le contenu de son rapport à la Chambre des communes, lesquels n'ont guère varié depuis nombre d'années. Je suis conscient des différences sensibles qui existent entre, d'une part, les fonctions et responsabilités du Vérificateur général du Canada et, d'autre part, les tâches confiées à ses homologues à l'étranger.

J'ai poursuivi en annonçant que, après consultation avec le président et le vice-président du Comité permanent des comptes publics et avec le plein accord du Président du Conseil du Trésor, je nommais un Comité indépendant de révision chargé de mener une étude complète et impartiale portant sur les responsabilités du Vérificateur général, ses relations avec les ministères et divers organismes et l'indépendance dont il jouit, en vue d'examiner des propositions de législation à l'égard du Bureau de la vérification. Cette étude était la première du genre qu'on ait entreprise depuis l'institution officielle du Bureau de la vérification en 1878.

La présidence du Comité a été confiée à M. J.R.M. Wilson, F.C.A., de Toronto, maintenant décédé, ancien associé principal du cabinet d'experts-comptables Clarkson, Gordon & Co. et ancien président de l'Institut canadien des comptables agréés (ICCA). Les autres membres du Comité étaient: M.M. Marcel Bélanger, O.C., C.A., de Québec, ancien président ou membre de plusieurs Commissions royales d'enquêtes, associé principal du cabinet d'experts-comptables Bélanger, Dallaire, Gagnon et Associés, par la suite élu président de l'ICCA en 1975-1976, et A. Lorne Campbell, C.R., de Winnipeg, associé principal de l'étude légale Aikins, MacAuley & Thorvaldson et ancien président de l'Association du barreau canadien.

Après une étude de 17 mois effectuée à la fois au Canada et à l'étranger, le Comité indépendant de révision m'a remis son rapport le 27 mars 1975 et le ministre des Finances l'a présenté à la Chambre des communes le 14 avril 1975. Dans mon Rapport de 1975, je faisais les commentaires suivants sur le travail du Comité:



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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Ottawa (Ontario)  
K1A 0G6

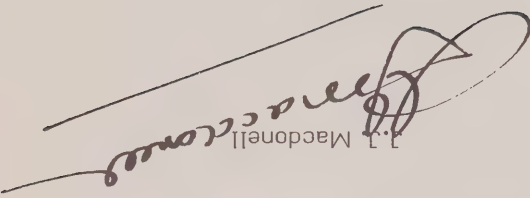
Honorables membres de la Chambre des communes,

Mon Rapport à la Chambre des communes pour l'année financière terminée le 31 mars 1977 a été déposé par l'Orateur de la Chambre. Il est en deux volumes, un français (474 pages) et un anglais (437 pages), y compris les Annexes dans les deux cas.

Vu que le temps des députés ne leur appartient pas, je me rends compte que, pour plusieurs, il sera difficile de lire en détail le Rapport complet. Nous avons préparé le présent aperçu général afin de les familiariser avec le contenu du Rapport et afin de les aider à trouver les sections qui les intéressent plus particulièrement.

L'aperçu général ne mentionne pas tous les détails du Rapport; il en donne plutôt un résumé. Le lecteur y trouvera des renvois aux diverses Parties du Rapport, à côté des en-têtes, ainsi qu'une table des matières complète. Pour de plus amples renseignements sur les questions résumées dans l'aperçu général, il faudra consulter le Rapport.

Bien que l'aperçu général ait été préparé principalement pour les députés, j'espère qu'il s'avèrera également un guide pratique du Rapport pour toutes les autres personnes du secteur public et du secteur privé que ces questions intéressent.

  
J. J. Macdonell

Novembre 1977

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\* \* \*

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# Aperçu général du

Rapport du  
Vérificateur général du Canada  
à la Chambre des communes

pour l'année financière terminée  
le 31 mars 1977







# Aperçu général du

## Rapport du Vérificateur général du Canada à la Chambre des communes

pour l'année financière terminée  
le 31 mars 1977





Report of the  
Auditor General of Canada  
to the House of Commons

for the Fiscal Year Ended  
March 31, 1977





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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable James A. Jerome, Q.C., M.P.,  
Speaker of the House of Commons.

I have the honour to transmit herewith my Report to the House of Commons for the fiscal year ended March 31, 1977, to be laid before the House in accordance with the provisions of Section 7(3) of the Auditor General Act, 1976-77, c.34.

  
J. J. Macdonell

OTTAWA, November 30, 1977



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**REPORT OF THE AUDITOR GENERAL  
TO THE HOUSE OF COMMONS  
FOR THE FISCAL YEAR ENDED MARCH 31, 1977**

**1**

**INTRODUCTION**

**1.1** The principal functions and responsibilities of the Auditor General of Canada are set out in Sections 56 to 65, Part VII, of the Financial Administration Act, *R.S., c. F-10*. His responsibilities in respect of those Crown corporations for which he has been appointed auditor are set out in Sections 76 to 78 of the Act. The relevant sections of the Act are included as Appendix A to this Report.

In compliance with Section 61 of the Act, my Report for the fiscal year ended March 31, 1977, is presented herewith.

**1.2** My examination included general reviews of the accounting procedures and such tests of accounting records and other supporting evidence as were considered necessary in the circumstances. The staff of the Audit Office was given full access to all vouchers, records and files relating to the accounts of all departments, Crown corporations and other agencies and was provided with all the information and explanations required. I should like to express my appreciation and that of my associates in the Audit Office for the co-operation extended to us by officials of departments, agencies and Crown corporations.

**1.3** The financial statements of the Government of Canada for the fiscal year ended March 31, 1977, which have been prepared by the Receiver General for Canada in accordance with the provisions of Section 55 of the Financial Administration Act and which appear in Volume I of the Public Accounts of Canada, have been examined and certified by me as required by Section 60 of the Act. These statements and my certificates thereon are reproduced in Part 13 of this Report.

**1.4** Also included in Part 13 is a statement of the Exchange Fund Account showing assets and liabilities as at December 31, 1976, together with my Report to Parliament in accordance with Section 18 of the Currency and Exchange Act, *R.S., c. C-39*.



## MATTERS OF SPECIAL IMPORTANCE AND INTEREST

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2

**MATTERS OF SPECIAL IMPORTANCE AND INTEREST**

**2.1** In this Part of my Annual Report, I wish to direct the attention of the House of Commons to matters that I consider to be of special importance and interest. A reference in the heading to the appropriate Part number indicates those dealt with in greater detail in the succeeding Parts.

**Government Actions to Improve Financial Management and Control**

**2.2** In my 1976 Annual Report, I wrote of my concern that Parliament - and indeed the Government - had lost, or was close to losing, effective control of the public purse. I said also that the full results of my Office's two-year study of financial management and control across Government had led me inescapably to the opinion that:

*Based on the study of the systems of departments, agencies and Crown corporations audited by the Auditor General, financial management and control in the Government of Canada is grossly inadequate. Furthermore, it is likely to remain so until the Government takes strong, appropriate and effective measures to rectify this critically serious situation.*

As explained in my Report, I reached that opinion after the most careful consideration. It was supported by the findings expressed in my 1975 Report after the first year of the Financial Management and Control Study of departments and agencies, by the results of our monitoring during 1976 of government actions to remedy this unsatisfactory situation, and by the detailed findings of our study of financial management and controls in Crown corporations summarized in 18 recommendations in Part 5 of my 1976 Report.

**2.3** Having reached this opinion, I took what for me was the unprecedented action of making three key recommendations as a specific organizational solution to the serious problems described in my 1975 and 1976 Reports. These recommendations represented, in highly summarized form, a synthesis of literally hundreds of detailed recommendations arising from our study of financial management and controls in departments, agencies and Crown corporations. Professional staff of my Office and senior representatives of major public accounting firms across Canada recruited under the Executive Interchange Program of the Public Service Commission and under professional service contracts devoted more than 100,000 hours to the study.

I recommended:

- first, the establishment of the position of chief financial officer of the Government, preferably with the title of Comptroller General of Canada;
- second, the appointment to this position of a person with appropriate professional qualifications, with a proven record of outstanding competence and achievement at senior levels of responsibility, and with extensive experience as a senior financial executive in a large-scale organization in either the public or private sector; and
- third, the appointment in each department, agency and Crown corporation of a senior financial officer, preferably designated as the Comptroller (in combination, if appropriate, with another designation such as Assistant Deputy Minister in departments or Vice-President in Crown corporations), who would be directly responsible to the deputy head or chief executive officer for all aspects of financial administration within his organization and who would possess the professional and personal qualifications and senior financial executive experience that are commensurate with his important responsibilities.

I went on to say that implementation of these recommendations would lay the essential foundation of a soundly-conceived program for restoring effective control over public funds and assets, and for ensuring probity, prudence and economy in their management. I was confident that the Government, Parliament and, indeed, all taxpaying Canadians would subscribe to these objectives.

**2.4** Immediately after my 1976 Report was tabled in the House of Commons on November 22, 1976, the Honourable Robert Andras, then only recently appointed the President of the Treasury Board, announced the establishment of a Royal Commission of Inquiry on Financial Management and Accountability in the Government of Canada. Appointed to the Commission as Chairman was Mr. Allen T. Lambert, Chairman of the Board of the Toronto Dominion Bank, and as members Mr. Robert Després, President of the University of Quebec, Professor J.E. Hodgetts, of the University of Toronto, and Mr. O.G. Stoner, a senior federal public servant who was then the Deputy Minister of Industry, Trade and Commerce.

Commenting on the Commission's terms of reference, Mr. Andras noted that its mandate would be basically twofold, namely to inquire into and report on the structure, systems and procedures required:

- to ensure that financial management and control exercised at all levels and in all federal departments and agencies meet the highest attainable standards; and
- to establish effective administrative accountability of deputy ministers and heads of Crown agencies to the Government, and, where appropriate, to Parliament.

He went on to state:

The first object of enquiry reflects the extent to which the Government shares the concerns expressed by the Auditor General in his Report to this House for fiscal year 1975-76. The second object of the enquiry reflects the Government's determination that the complex of issues, both technical and political, raised in considering certain specific recommendations of the Auditor General, be clarified or resolved as swiftly and as effectively as possible.

In a press interview a few days later, Mr. Lambert said that he had informed the Government that:

The Royal Commission would not be affronted nor its work hampered in any way if any and all of the Auditor General's recommendations, including that for a Comptroller General, were implemented immediately.

**2.5** Shortly after Mr. Andras announced the appointment of the Royal Commission, he and I began a series of meetings which were to extend over several months during which we discussed in detail the work that lay behind, and the reasons for, the three key recommendations which appeared in my 1976 Report. As a result, each of us came to understand better the other's perspective on the serious deficiencies in financial management and control within the Government.

**2.6** I was pleased to note the following statement, a positive response to one of my three key recommendations, which was made by the President of the Treasury Board in a House of Commons debate on December 9, 1976:

There are about 1,800 financial officers in the public service of Canada, and indeed the Treasury Board is very much in agreement with the Auditor General that it is not enough. Too many financial management and control operations are entrusted to clerical people and people whose qualifications are often insufficient. Many departments and agencies have not yet elevated their chief financial officer to the position that he or she must occupy in the management structure in order to maintain or upgrade standards of financial administration. . . . It is my opinion, and our endeavour in almost every case - on some very small boards it might be slightly different - that this person should report not through anybody else but directly, at least, to the deputy minister of the department, the chairman of a board or the president of a Crown corporation.

Responding to a question from the Leader of the Opposition, Mr. Andras went on to say that with respect to departments such persons generally would be at the assistant deputy minister level.

**2.7** On April 25, 1977, Mr. Andras introduced Bill C-20, the Auditor General Act, for second reading in the House of Commons. (First reading was on November 1, 1976, moved also by Mr. Andras.) On April 25, the Minister made two further announcements of great significance on matters that had been included in my 1976 Report. First, he indicated that new omnibus Crown corporation legislation, including major amendments to Part VIII of the Financial Administration Act, would be presented to the House of Commons after a complete review of Crown corporations then being conducted by the Privy Council Office. Second, he announced the Government's intention to create the position of Comptroller General of Canada carrying the rank and status of a deputy minister and reporting directly to the President of the Treasury Board.

In making his announcement concerning the Comptroller General, Mr. Andras stated:

I am pleased to report, Mr. Speaker, that after a long and detailed series of constructive discussions that I have held personally with the Auditor General, we have been able to clarify the intent of his recommendation and to reach a clear understanding of the duties, responsibilities and reporting relationships for the Comptroller General. I am reassured to find, Mr. Speaker, that there never has been any real difference between the views and opinions of the Auditor General and the Government's declared objective to further strengthen administrative controls and to eliminate inefficiencies and waste...

In general terms, the Comptroller General will be responsible to the Treasury Board for the quality and integrity of the financial control systems and administrative policies and practices in use throughout the federal Public Service. The greater part of the responsibilities of this new office, will comprise those which were assigned to the Financial Administration Branch of the Treasury Board Secretariat, on its creation in March 1976. There will be a special "functional" relationship between the Comptroller General and the chief financial administrators of departments, agencies and corporations, thus enabling the Comptroller to provide necessary guidance, while maintaining the principle of decentralized management adopted as a result of the Glassco Commission's recommendations...

By this action, this appointment, which will entail a major restructuring of the Treasury Board Secretariat, we reiterate our determination to maintain the highest possible standards of control through the creation of an office that could best be described as the "chief financial administrator of the Federal Public Service".

**2.8** Based on my discussions with the Minister, I am confident that he and the Government fully understand and share my view on the critical importance of selecting a truly outstanding individual as the first Comptroller General of Canada - a position which I rate, as do the senior members of the Canadian accounting profession who serve as a committee of independent advisers to my Office, as the most important and responsible financial executive position in



Canada whether in the public or private sector. I have been informed that a comprehensive search has been under way for several months to find candidates for this important position from within government and major commercial and industrial organizations and that it is now (October 1977) in its final stages.

**2.9** Other positive, constructive and important actions by the Government since the tabling of my 1976 Report, some of which will be referred to in subsequent paragraphs of this Part and all of which have significant impact on financial control, include:

- the announcement on December 16, 1976, by the President of the Treasury Board of new Government policy and guidelines concerning the commercial practices of Crown corporations;
- the enactment by Parliament of the new Auditor General Act and its proclamation by the Governor General effective August 1, 1977;
- the granting by Parliament on the advice of the Government of a significant increase in resources to the Audit Office through Main Estimates for 1976-1977; and
- the release on August 18, 1977, by the President of the Privy Council of a paper setting out Government Proposals on the Control, Direction and Accountability of Crown Corporations.

**2.10** Taken together, these actions by the Government and Parliament comprise, in the phraseology I used in my 1976 Report, "strong, appropriate and effective measures" to achieve ultimately a satisfactory system of financial management and control within the Federal Government and the restoration to Parliament of an appropriate degree of control over the public purse. Much careful planning, some skillful marshalling of capable professional resources and plenty of hard work lies ahead in order to reach this goal. But, most importantly, the direction has been reversed and a start - a good start - has been made. At this time (October 1977) the most significant matter yet to be dealt with is the selection and appointment of a truly outstanding individual as the first Comptroller General of Canada. The person selected faces an exceedingly challenging task. He will need the full support of his Minister, the President of the Treasury Board, of the Government, and of his colleagues, the deputy heads and chief executive officers of the various departments, agencies and Crown corporations. My colleagues in the Audit Office and I offer the Comptroller General our complete co-operation.

### **Computer and Information Systems Evaluation (CAISE) Study (Parts 3 to 6)**

**2.11** The Computer and Information Systems Evaluation (CAISE) Study comprised an in-depth review and evaluation of controls pertaining to electronic data processing (EDP) in the Federal Government. This Study, announced in my 1976 Report, supplements the Financial Management and Control Study conducted



over the last three years which concentrated largely on the overall effectiveness of financial management and control systems within the Federal Government and did not attempt to deal specifically with the computerized aspects of the systems, or with the Government's management of EDP.

The CAISE Study was carried out by 40 auditors and EDP specialists recruited from accounting and consulting firms in Canada under the Executive Interchange Program of the Public Service Commission, or under professional service contracts, and 25 professional staff members of the Audit Office.

Broadly viewed, the CAISE Study dealt with two distinct areas: first, an assessment of management control over EDP resources and related expenditures; and, second, an evaluation of controls over financial data processed by computers.

**2.12** Parts 3, 4, and 5 of this Report contain the observations and recommendations of government-wide significance arising from the CAISE Study. Part 6 contains the findings resulting from our review of financial controls in nine major computer-based systems. The overall conclusions of the Study, as outlined in Part 3, are as follows:

- ***Management Control Over Electronic Data Processing Resources.***  
*Significant improvements are required and can be made in the process by which EDP resources in the Government are managed and controlled both by departments, which have primary responsibility for the management of these resources, and by the Treasury Board Secretariat, which has the government-wide responsibility for monitoring and co-ordinating the use of these resources.*
- ***Controls Over Financial Information Processed by Computers.***  
*Controls over certain of the computerized systems reviewed, which process and account for many billions of dollars of public funds, are inadequate to ensure the accuracy, completeness and proper authorization of the financial information being processed:*
  - *in most of the departments reviewed, sufficient attention has not been paid to implementing sound financial accounting controls over the computerized systems; and*
  - *the Treasury Board has not established minimum control standards and procedures specifically applicable to financial information processed by computer systems, and the evaluation of financial controls in these systems by departmental internal audit groups and the Treasury Board Secretariat has been inadequate to ensure the existence of proper controls.*

**2.13** The Study was conducted under the direction of Ruben J. Rosen, C.A., a partner of Touche Ross & Co., on loan to the Office under the Executive Interchange Program. Associated with him in this responsibility was a Steering

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Committee comprising the following partners of participating firms and members of our senior management group:

Donald A. Brown, C.A.	Coopers & Lybrand
John Callum, C.A.	Clarkson, Gordon & Co.
Colin Campbell, C.A.	Touche Ross & Co.
Keith Dorricott, F.C.A.	Deloitte, Haskins & Sells
Ronald G. Gage, F.C.A.	Clarkson, Gordon & Co.
Raymond H. Healey, P. Eng., C.A.	Thorne Riddell & Co.
Robert D. Humfrey, R.I.A.	Peat, Marwick and Partners
D. Larry Meyers, P. Eng., C.A.	Office of the Auditor General
Erik Peters, C.A.	Office of the Auditor General
Larry W. Shick, P. Eng.	Price Waterhouse Associates

Mr. Rosen and the members of this Steering Committee have reported to me that they unanimously support the overall conclusions of the Study which are set out above.

**2.14** In its review of the Benefit and Overpayment System of the Unemployment Insurance Commission, reported in paragraphs 6.45 to 6.49 of Part 6, the CAISE Study described serious control weaknesses in the System that can expose the Commission to the payment of benefits through error or fraud. Also, the Commission itself had detected a large number of these types of payments through certain of its control functions. Under these circumstances, I considered it necessary, before giving my opinion on the Commission's financial statements for the year ended December 31, 1976, to obtain additional specialized professional assistance to estimate, through scientifically designed testing procedures and within reasonable limits of materiality, the extent of undetected overpayments of benefits and the significance of the control weaknesses described in the CAISE Study.

The results of this additional investigation were such that I found it necessary to include in my report to the Minister of Employment and Immigration on the financial statements of the Commission a matter that in my opinion should be brought to the attention of Parliament, namely the need for the Commission to improve controls over the payment of initial and continuing benefits to claimants. Paragraph 17.10 of this Report contains further comment.

### **Completion of the Financial Management and Control Study (Parts 7 & 8)**

**2.15** The Financial Management and Control Study, initiated in May 1974, evaluated the adequacy of financial management and control in the departments, agencies and Crown corporations my Office audits. During the current year, reviews were carried out in the remaining entities identified in the original terms of reference, concluding the initial round of studies of financial management and control practices begun in 1974. Over the last three years, 82 individual reports aggregating over 3,000 pages have been issued on detailed studies conducted in 50 departments and agencies, 28 Crown corporations, two corporations not scheduled in the Financial Administration Act and the Governments of the Yukon and Northwest Territories.

**2.16** The current year's studies, reported in Part 7 and Appendix D of this Report, indicate a number of significant deficiencies in financial management and control, similar to those disclosed in previous years. Considering the similarity of the financial functions of most departments and agencies, it seems reasonable to have expected that the senior financial officers of those studied this year would have: (1) reviewed the observations which were included in my 1975 Report, and the 1976 and 1977 Proceedings of the Public Accounts Committee relating to the results of the Study; (2) made a comparison of the findings and recommendations and the actions taken with the financial management and control practices within their own organizations; and (3) initiated action to correct deficiencies before we began our current studies. Unfortunately, there has been little evidence of such initiative on the part of the senior financial administrators in most of the departments and agencies covered this year.

**2.17** Part 8 of this Report itemizes and comments on corrective actions taken or planned to the end of August of this year in response to the 34 main recommendations of government-wide significance we made as a result of our review of financial management and control practices in departments and agencies of the Government during 1975. Although it is not yet possible to assure Parliament that the actions taken are sufficient to remedy the problems we identified, it is evident there is a significantly increased awareness of and agreement on the need to improve financial management and control in the Government.

In terms of significant visible changes to rectify major internal control weaknesses, progress has not been spectacular. And, given the detailed information already developed and made available through the Financial Management and Control Study, perhaps more effort has been applied to further studies and the formation of interdepartmental committees and less to prompt actions to correct identified major deficiencies than might seem warranted. But, as pointed out in my 1975 and 1976 Reports, this is probably symptomatic of organizational and procedural weakness in financial management and control that seems to have been widespread throughout the Government for some considerable time. Here lies the challenge for the Comptroller General to provide action-oriented leadership.

**2.18** In my 1975 Report, I recommended that a comprehensive study be made with a view to revamping the form of the Estimates so that the information they contain would be more meaningful and useful to Parliament and so that the approved Estimates would be the cornerstone for a fully effective government expenditure control system straight through to the lowest organizational unit to which responsibility accounting and direct costing can be applied effectively.

Although this recommendation was strongly supported by the members of the Public Accounts Committee and agreed to in principle by Treasury Board officials, either for lack of resources or for other undisclosed reasons there has been no visible action to date. I have been told recently by a senior government official that there is some uncertainty as to the precise nature of the



improvements proposed. To clarify the objectives and thereby to encourage action, I have initiated a demonstration project using wherever possible information that is now available within departments. When the results are available it is hoped they will be helpful in expediting improvements in the form of the Estimates.

**2.19** In my 1975 Report, based on the results of the findings of the first year of the Financial Management and Control Study, I reported that the system of internal audit throughout the Government needed substantial improvement if it were to be made an effective and reliable instrument of financial control. The Financial Administration Branch of the Treasury Board Secretariat undertook to study this matter and recently released an exposure draft of a new manual entitled - Standards for Internal Financial Audit in the Government of Canada. In the process of developing this exposure draft, the Secretariat has created an increased awareness of the importance of internal financial audit throughout the Government.

My Office has a twofold interest in the auditing activities being conducted within the Federal Government. First, with our new formal mandate under the Auditor General Act to observe whether expenditures are made with due regard for economy and efficiency and whether satisfactory procedures are in place to evaluate program effectiveness - in short, whether value is being obtained for money spent - it is incumbent on us to ascertain the nature, extent and effectiveness of the work being done not only by groups involved in internal financial audit but also by groups conducting "operational audits", "management audits" or "cost effectiveness audits". Second, the work performed by all these groups is a factor we must consider in determining the nature, timing, and extent of our own auditing procedures. Accordingly, I recently initiated a review for the purpose of assessing whether there is good "value for money" being obtained in the whole area of auditing within the Federal Government including my own Office, whether there is duplication or overlapping and, if so, whether it can be reduced or eliminated by modifications in existing audit programs.

### **Government Proposals for the Direction, Control and Accountability of Crown Corporations (Part 9)**

**2.20** Part 5 of my 1976 Report summarized the results of our analysis of the financial relationships that Parliament and the Government have with Crown corporations, and it highlighted significant weaknesses concerning internal financial management and control activities common to a number of Crown corporations studied. Eighteen main recommendations of government-wide significance were presented. The overall conclusion of our study of financial management and controls in Crown corporations was as follows:

*In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, co-ordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually non-existent.*

Both our government-wide recommendations and the more specific recommendations on individual Crown corporations were designed to provide Parliament and the Government with assurance that the activities of those Crown corporations that are funded in whole or in part out of the public purse are under effective financial control.

**2.21** On August 18, 1977, the President of the Privy Council, following a study conducted by the Privy Council Office, released a document entitled *Crown Corporations - Direction, Control, Accountability - Government of Canada's Proposals*. The introduction to these Proposals states that:

The Government has decided to publish this Paper at this time in order to encourage public discussion and comment and allow the Government to hear and consider the comments of the Royal Commission on Financial Management and Accountability, the Auditor General, the interested public and, of course, the Crown corporations themselves, prior to introduction of an omnibus Crown Corporations Bill in Parliament.

A copy of this document was sent to me by the Prime Minister on August 17, inviting my observations and comments on the various Proposals.

**2.22** I was pleased to have had the opportunity to comment on the Government's Proposals. In October 1977, I wrote to the Prime Minister and attached to my letter a memorandum analysing the impact of the Proposals on each of the 18 recommendations contained in Part 5 of my 1976 Report. This memorandum is reproduced in Part 9 of this Report.

Briefly, in my letter, I stated that in my opinion the Proposals provide clear and welcome evidence of the Government's desire to correct the deficiencies identified in the study of financial management and controls of Crown corporations conducted by my Office. I also pointed out, however, that a complete assessment of the Proposals would not be possible until my Office had had the opportunity to review:

- revised schedules to the Financial Administration Act identifying the government-owned or controlled corporations which are to be considered Crown corporations; and
- the Position Paper which the Proposals indicate will be presented to the Royal Commission on Financial Management and Accountability to explain the administrative systems and procedures that should be put in place to fulfill the purposes of the Proposals and the related new Crown corporations legislation.

Also, I recommended that further consideration be given to defining the responsibilities of Crown corporation auditors and that account be taken of the July 7, 1977, Report of the Standing Committee on Public Accounts to the House of Commons, which contained a number of significant recommendations affecting Crown corporations.



**2.23** Concerning the audits of those Crown corporations of which the Auditor General has been appointed auditor, I intend to apply the same audit standards and to discharge the same reporting mandate in terms of scope as apply to all other Government entities dependent in whole or in part on the public purse; these requirements are defined in the Auditor General Act. No doubt this would apply as well to private sector auditors appointed as auditors of Crown corporations or government-owned or controlled corporations partially or wholly dependent on funds provided by Parliament for their operation. However, it would seem desirable that this be made clear in new legislation.

For government-owned and controlled corporations that are commercially viable, financial criteria similar to those used in the private sector may be adequate to evaluate the overall quality of performance. Regardless of other financial criteria, however, in the evolving emphasis on accountability a convincing case can be made, in my opinion, for the application of consistent audit guidelines, standards and reporting for all entities in which public funds are involved and the new Auditor General Act charts a clear course in this matter.

## **Grants and Contributions (Part 12)**

**2.24** During our two-year study of grants and contributions we noted serious control deficiencies in commitment, spending and payment procedures, and significant weaknesses in other areas. In particular, the requirements for the exercise of spending and payment authorities for grants and contributions have either been completely ignored by departments and agencies or only partially met. Also, there is a lack of accountability by recipients of contributions and some departments are not enforcing proper procedures to ensure that accountability requirements, where they exist, are met on a timely basis.

The study revealed widespread inconsistencies in the classification of "grants" and "contributions" and confusion occurs because the terms often are used interchangeably. For certain programs: no criteria have been approved by the Treasury Board; some contributions are not supported by an official agreement; and enforcement of the terms and conditions of agreements which do exist is inadequate. In addition, to prevent lapsing of appropriations, some departments made advances at the end of the fiscal year in excess of the immediate requirements of recipients.

Parliament approves substantial funds each year for grants and contributions. For the fiscal year 1975-76 when this study was started, expenditures for grants, contributions and other transfer payments amounted to \$18,600 million. Exclusion of transfer payments to the provinces for health care and other fiscal arrangements and of payments for unemployment insurance and income security left \$7,300 million for grants and contributions to provinces, organizations and individuals. Main Estimates for the fiscal year 1977-78 raised this last amount to \$7,700 million, \$2,500 million for grants and \$5,200 million for contributions. The magnitude of these amounts emphasizes the need for strict internal financial control, sound administrative procedures, and comprehensive directives and guidelines on the management of funds.

Since 1971, Treasury Board Circular 1971-18 has governed the payment of grants and contributions. We have been informed that a new directive is being drafted to define grants and contributions better, to implement precise guidelines governing each category and to ensure improved financial control. We hope that Part 12 of this Report outlining the general weaknesses identified during the two-year study and our related recommendations, will hasten corrective action to bring about better control.

### **Questionable Practices**

**2.25** In 1973 the Watergate revelations in the United States focused attention on questionable corporate conduct, specifically on payments to the Committee to Re-elect the President. Subsequent public and private sector investigations and further disclosures shifted attention from domestic political payments to foreign political payments, then to other payments made in foreign countries and finally to corporate bribery in the United States.

Canadian concern with governmental and corporate accountability and the auditor's responsibilities has increased considerably partly due to the heightened awareness in the United States and partly due to events in Canada, including the hearings conducted by the Standing Committee on Public Accounts during the last year on the questionable practices of Atomic Energy of Canada Limited and Polysar Limited.

**2.26** On December 16, 1976, the President of the Treasury Board announced new government policy and guidelines concerning the commercial practices of Crown corporations. In concluding his remarks on that occasion, Mr. Andras stated:

...I wish to emphasize that rigorous ethical standards and dedication to propriety - whether on the part of individuals, corporations, governments or nations - carry with them acceptance of certain practical limitations on action and performance. In other words, what I am really saying today is that, while we Canadians need and want to expand our foreign trade, we are not prepared to sell our goods and services on any terms or at any conditions.

Principles, just as commodities, can be expensive. We Canadians must be fully aware of the price we must pay to live by our principles, to be the kind of people we want to be and to maintain the kind of society we want to have. We do not claim that the Canadian way of doing things makes us any better than other people or other countries. But it is the Canadian way - the way we have chosen for ourselves.

On February 7, 1977, the Secretary of the Treasury Board issued a circular letter to the deputy heads of departments and heads of agencies emphasizing that the policy and guidelines announced by the Minister in December apply not only to Crown corporations but also to all government departments and agencies.

**2.27** On July 7, 1977, the Standing Committee on Public Accounts presented to the House of Commons its Second Report, the Polysar Report, which was the culmination of many hearings conducted over several months on the questionable commercial practices of Polysar Limited. These practices had first been reported by my predecessor in a letter to the Prime Minister of Canada dated March 22, 1973.

This report of the Public Accounts Committee does much to make the auditors of publicly funded organizations and enterprises, including of course the Auditor General of Canada, aware of what Parliament expects and has a right to expect from them in carrying out their duties and reporting on the results of their audit examinations. Because of its significance, the full text of the Committee's report has been reprinted as Appendix E of this Annual Report.

**2.28** In the light of the new Government policy and guidelines and the recommendations contained in the Public Accounts Committee's Polysar Report, and taking into account also the authoritative pronouncements made by various legislative, regulatory and professional bodies, my Office has modified its audit procedures to reduce the possibility that questionable practices of departments, agencies and Crown corporations might go undetected. Furthermore, we have expanded the scope of letters of representation to refer specifically to the new Government policy and guidelines. Departments, agencies and corporations provide such letters of representation from top management to assure the Auditor General that he has been made aware of all significant matters that should be brought to his attention in connection with his audit examination.

**2.29** Our audit examinations during the current year identified questionable practices by one Crown corporation, the Canadian Saltfish Corporation, and by one department, the Department of External Affairs. In both cases, the Ministers concerned have been notified and the situations have been reviewed by the appropriate senior officials as well as, in the case of the Canadian Saltfish Corporation, by its Board of Directors. Nothing came to our attention during the course of our examinations which indicated financial impropriety for personal gain by members of the Corporation or the Department. Both organizations have issued clear instructions to discontinue these practices and we shall monitor to ensure compliance. Details are set out in paragraphs 17.2 and 17.3 of this Report.

## **The Auditor General Act**

**2.30** On November 1, 1976, the President of the Treasury Board introduced for first reading in the House of Commons Bill C-20, "An Act respecting the office of the Auditor General of Canada and matters related or incidental thereto". This Bill represented the culmination of the work of the Independent Review Committee on the Office of the Auditor General which I appointed in October 1973 to conduct a thorough and impartial study of the responsibilities, relationships and independence of the Auditor General. The study was the first of its kind undertaken since the Audit Office was formally established in 1878. The report of the Committee was submitted to me on March 27, 1975, and was tabled



in the House of Commons by the Minister of Finance on April 14, 1975. I am pleased to report that, with only minor exceptions, the Committee's recommendations, which appear in Appendix C of this Report, have been implemented either through the provisions of Bill C-20 or through other actions taken by the Government or by my Office.

On April 26, 1977, Bill C-20 received second reading in the House of Commons and was referred to the Standing Committee on Public Accounts. Between May 17 and June 14, the Committee held a series of five hearings on the Bill, most of which were attended by the President of the Treasury Board. These hearings were characterized by frank and constructive exchanges between Mr. Andras, representing the Government, and all the members of the Committee. In its First Report to the House of Commons dated June 15, 1977, the Committee reported on its deliberations and proposed a number of amendments to improve the Bill. These were accepted by the House and the Bill received third reading on June 29.

**2.31** On July 5, I attended a meeting of the Senate Committee on National Finance where the Bill was being considered following second reading in the Senate. Following passage of the Bill in the Senate, it was granted Royal Assent on July 14, 1977, and subsequently proclaimed to be effective August 1, 1977.

**2.32** The new Auditor General Act represents, in my opinion and that of my colleagues in the Audit Office, an important milestone in the history of the Office and a piece of landmark legislation which is likely to influence government auditing in other jurisdictions, both provincially in Canada and internationally. We in the Audit Office are particularly gratified to have been granted by Parliament a new mandate and increased professional and administrative independence just before the beginning of the Office's centennial year.

The full text of the new Auditor General Act is contained in Appendix B of this Report.

### **Study of Procedures In Cost Effectiveness (S.P.I.C.E.)**

**2.33** The key recommendation of the Independent Review Committee was that the Auditor General should call attention in his annual reports to any cases where he has observed that value for money has not been obtained for public expenditures. This recommendation is reflected in the new Auditor General Act in Section 7(2) which provides in part that each annual report of the Auditor General to the House of Commons

...shall call attention to ... any cases in which he has observed that...

- (d) money has been expended without due regard to economy or efficiency; or

- (e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

Although the Audit Office, during my term of office as well as the terms of my two predecessors, Mr. Maxwell Henderson and Mr. Watson Sellar, did report to the House of Commons instances that came to attention during regular audit examinations where full value had not been received for payments made by departments, agencies or Crown corporations, the new Act now - for the first time - formally assigns the responsibility for this type of reporting to the Auditor General.

**2.34** Recognizing the imminence of the introduction of the Auditor General Act and, consequently, the pressing need to prepare my Office for its new responsibility, in September 1976 I initiated the Study of Procedures in Cost Effectiveness with the following objectives:

- to compile information on the "state of the art" of management control systems in the public sector, in terms of economy, efficiency and effectiveness;
- to assess and report on existing procedures for planning, measuring and controlling activities in Canada's public service (in the interests of economy, efficiency and effectiveness); and
- to recommend to the Office of the Auditor General how this new mandate should be exercised in the future.

The Study is directed by Kenneth G. Belbeck, President of the management consulting firm of Stevenson & Kellogg, Ltd., who has been associated with the Office since September 1, 1976, as Director General - S.P.I.C.E. under the Executive Interchange Program of the Public Service Commission. Working with him are approximately 60 senior professionals assigned to the Study from my Office and recruited from leading management consulting and public accounting firms across Canada.

**2.35** As the above objectives indicate, the S.P.I.C.E. Study's initial approach was basically research oriented. Until recently, the Study has been examining selected programs within certain departments and agencies of the Government, gathering information and knowledge, developing expertise and identifying the talents and resources required by the Audit Office for the fulfilment of its new mandate.

As provided for in the new Auditor General Act which came into effect on August 1, 1977, the first results of our studies based on the value for money concept will be communicated to the House of Commons in my 1978 Report. To attain this objective, we have recently modified the initial research orientation of the Study and transformed it into an expanded operational program. We are



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continuing the program of individual examinations in specific areas of Government operations to obtain audit evidence on the quality of management controls. Concurrently, in-depth studies crossing the boundaries of departments and agencies are being initiated to explore issues of a government-wide nature that have emerged from our examinations to date.

## **COMPUTER AND INFORMATION SYSTEMS EVALUATION (CAISE) STUDY**



# COMPUTER AND INFORMATION SYSTEMS EVALUATION STUDY

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## **INTRODUCTION AND OVERALL CONCLUSIONS OF THE CAISE STUDY**

**3.1** The purpose of the Computer and Information Systems Evaluation (CAISE) Study was to conduct an in-depth review and evaluation of controls pertaining to electronic data processing (EDP) in the Federal Government. This Study was announced in the Auditor General's 1976 Report to the House of Commons.

Broadly viewed, the CAISE Study dealt with two distinct areas: first an evaluation of controls over financial information that is processed by computers, and second, an assessment of management control over electronic data processing resources and related expenditures.

### **EDP in the Federal Government**

**3.2** The Report of the Royal Commission on Government Organization (Glassco Commission), published in 1962, identified 44 punched card installations in use, and 11 EDP installations in existence or in various stages of planning. The cost of "Automatic Data Processing", including punched card equipment and computers, was estimated at \$4 million. The Report pointed to the need for government to plan, co-ordinate and control the use of automatic data processing, and presented a number of recommendations in each of these areas.

**3.3** Since then, the number of computers and the number and complexity of computer applications has increased substantially. Today, the computer has become an important and essential tool, vital to the Government's ability to manage effectively. The great majority of government systems that collect revenue or disburse funds through various programs, and perform the essential financial accounting functions, have been automated in varying degrees by using computers.

The Federal Government is the largest single user of computers in Canada today. The Treasury Board Review of EDP in the Government of Canada 1976-77 estimates the Government's "full EDP costs" for 1976-77 at \$283 million. For the fiscal year 1977-78 they are projected at \$323 million, which includes the cost of 8,763 EDP man-years. These figures are based on reports prepared annually by those departments which utilize EDP; however, the definition of "full EDP costs" as provided by the Treasury Board Secretariat is not interpreted in the same way in each department. The figures exclude EDP costs of Crown corporations and the cost of computers used in certain technical applications, and therefore we believe the actual government expenditures for EDP supplies and services to be well in excess of the reported figures.

**3.4** Given the importance of computers in supporting the Government's major programs and in providing the financial and other management information required by Government to operate, and given also the substantial cost of EDP, the need to manage and control this resource and the ability to audit its use are of considerable significance.

## **Background to the Study**

**3.5** The Financial Management and Control Study, the results of which were described in detail in my 1975 and 1976 Reports, assessed financial management and control systems within the Federal Government. It concentrated largely on the overall effectiveness of these systems and did not attempt to deal specifically with the computerized aspects of the systems, or with Government's management of EDP. Rather, because of the highly specialized and technical nature of EDP, this separate Study (CAISE) was undertaken, designed primarily to complement and supplement the Financial Management and Control Study.

## **Terms of Reference**

**3.6** The CAISE Study reviewed and evaluated:

- activities and controls relating to: the acquisition of new or additional EDP equipment and facilities; systems development and maintenance; computer operations; and EDP documentation and standards;
- controls over the computer processing of financial information in selected government systems, including the role of internal audit in EDP; and
- the extent of compliance with the Treasury Board Guide on EDP Administration and the sections of the Treasury Board Guide on Financial Administration relating to computer processing of financial information and to internal financial audit.

## **Staffing the CAISE Study**

**3.7** The Study was carried out by 40 auditors and EDP specialists recruited from accounting and consulting firms in Canada under the Executive Interchange Program of the Public Service Commission, or under professional service contracts. In addition, 25 professional staff members of the Office of the Auditor General participated in the Study.

The CAISE Study is under the direction of Ruben J. Rosen, C.A., a partner of Touche Ross & Co., on loan to the Office under the Interchange Program. Associated with him in this responsibility is a Steering Committee comprising several partners of firms participating in the Study, and several members of our senior management group.

## **Scope of and Approach to the CAISE Study**

**3.8** The Study began with the preparation of a comprehensive inventory of computer installations, computer applications, systems under development and other EDP-related projects within major departments. From an analysis of this inventory, individual projects were undertaken to assess the effectiveness of management control over electronic data processing resources and to evaluate controls over financial information processed by computers.

- ***Management Control Over Electronic Data Processing Resources.***

The objective was to determine the adequacy of management control at the departmental level over the principal activities involved in developing new computerized systems, including feasibility, procurement and project management. The effectiveness of the Treasury Board Secretariat's co-ordination and monitoring of these activities on a government-wide basis was also appraised. A number of systems currently being developed and recent procurements of EDP goods and services were reviewed in sufficient detail to assess the development process and to support our findings. However, the efficiency and effectiveness of the systems resulting from the development projects were not assessed.

The degree of security provided over computer systems, data and services was assessed in a number of computer installations, and the adequacy of existing government policies and procedures regarding EDP security was evaluated.

The degree of compliance with relevant government policies and directives, as contained in the Treasury Board Guide on EDP Administration, was also evaluated.

- ***Controls Over Financial Information Processed by Computers.***

The objective was to evaluate the adequacy of controls over the processing of financial information. Nine major computer-based financial systems in seven departments were selected for this in-depth control evaluation. The scope of the Study excluded the tests required to quantify the financial impact of identified control weaknesses on information produced through computer processing. However, the Study findings will be taken into account in planning and conducting our continuing audit examinations of the seven departments. The results of our evaluation of each of the nine systems are included in Part 6 of this Report.

Through a separate government-wide project, the Study also assessed the capability of departmental audit groups to perform effective audits in a computerized environment.

The approach and methodology applied in evaluating controls were based on the generally-accepted EDP minimum control standards and techniques contained in the Canadian Institute of Chartered Accountants' publications, Computer Control Guidelines and Computer Audit Guidelines.

## Overall Conclusions

**3.9** Parts 4 to 6 of this Report contain the detailed observations and recommendations based on the results to date of the CAISE Study. The overall conclusions are outlined below:

- **Management Control Over Electronic Data Processing Resources.**  
*Significant improvements are required and can be made in the process by which EDP resources in the Government are managed and controlled both by departments, which have primary responsibility for the management of these resources, and by the Treasury Board Secretariat, which has the government-wide responsibility for monitoring and co-ordinating the use of these resources.*
- **Controls Over Financial Information Processed by Computers.**  
*Controls over certain of the computerized systems reviewed, which process and account for many billions of dollars of public funds, are inadequate to ensure the accuracy, completeness and proper authorization of the financial information being processed:*
  - *in most of the departments reviewed, sufficient attention has not been paid to implementing sound financial accounting controls over the computerized systems; and*
  - *the Treasury Board has not established minimum control standards and procedures specifically applicable to financial information processed by computer systems, and the evaluation of financial controls in these systems by departmental internal audit groups and the Treasury Board Secretariat has been inadequate to ensure the existence of proper controls.*

**3.10** Detailed recommendations presented later in this Report are designed mainly to:

- enhance the controls over the process by which EDP equipment and services are acquired and systems are developed; and
- ensure that effective controls become an integral part of all EDP systems which process financial information.

**3.11** Reproduced at the end of Part 5 of this Report is the complete text of a letter dated October 20, 1977, from the Secretary of the Treasury Board in response to our request for his comments on the CAISE findings and recommendations included in Parts 4 and 5.



## MANAGEMENT CONTROL OVER ELECTRONIC DATA PROCESSING RESOURCES

### Responsibility for Control

**4.1** In 1971, the Treasury Board, concerned with the increase in the number of computers and related expenditures within the Federal Government, initiated an EDP Policy Project. The objectives were:

to review the current status of EDP and related government policies on the subject, to consider the future growth of EDP activities, and to recommend new policies for the future which would ensure the fullest and most effective use of EDP, both by each agency and by the government service as a whole.

The findings and policy recommendations were published in November 1971.

Two direct results were the broadening of responsibilities within the Treasury Board Secretariat by establishing the Information Systems Division in 1972 to oversee the implementation and administration of the Government's EDP policy, and the development and publication in 1974 of the Treasury Board Guide on EDP Administration which contains the Government's EDP policy, directives and guidelines.

**4.2 Treasury Board responsibilities.** The Treasury Board Secretariat is the central agency which now has primary responsibility for monitoring and co-ordinating the planning, procurement, operations and evaluation of EDP resources on a government-wide basis. According to its Guide on EDP Administration, the role of the Secretariat's Information Systems Division is to:

- develop, revise and interpret policies and guidelines for EDP planning, procurement, operations and evaluation;
- review and recommend action on departmental and centre plans for EDP developments, operations and acquisitions, and on any submissions relating to these plans;
- monitor the progress of EDP in the Federal Government, including participation in reviews of selected projects and assessments of the level of service of particular operations;
- ensure the sharing of information relating to EDP within the Federal Public Service; and
- produce an annual review of EDP in the Federal Government.



**4.3**      The defined purpose of the Guide on EDP Administration is:

to encourage the proper use of electronic data processing (EDP) by identifying the objectives which deputy heads and EDP managers should pursue in acquiring and administering the EDP resources required to support government programs, and by providing a framework for the co-ordination and control of EDP use in the Public Service in the interests of program effectiveness and economy.

It is intended to provide "practical and useful tools both for EDP management and for EDP evaluation" and contains mandatory directives, which are essential elements in attaining policy objectives and effective control and co-ordination of EDP, and non-mandatory guidelines, which are recommended courses of action. The Guide covers the following areas:

- Planning for EDP Needs
- Development and Control of EDP Projects
- Choice of EDP Services
- Procurement of EDP Goods and Services
- EDP Financial Administration
- Computer Performance Improvement
- EDP Records Management
- Security in an EDP Environment
- EDP Standards

**4.4**      **Departmental responsibilities.** Each user department has specific responsibility under the Treasury Board Guide on EDP Administration to examine and choose the best sources of EDP facilities and services to meet its needs in terms of service and costs. When a department acquires EDP resources, such as equipment, personnel or supportive services, it then has responsibility for their overall organization, management, operation or use.

**4.5**      Several agencies, departments and interdepartmental organizations have been assigned additional responsibilities in the area of EDP management and control. The role of each is set out in the Treasury Board Guide on EDP Administration; only the more significant are noted below.

The Supply Administration of the Department of Supply and Services has responsibility for providing an efficient and effective procurement service for EDP goods and services for departments and agencies. The Services Administration, through its Bureau of Management Consulting and Audit Services Bureau,

offers a wide range of consulting and auditing services to all departments on a request basis. In the EDP area, these services include planning, project definition and selection, systems design and implementation, monitoring activities, and pre- and post-implementation audit. In addition, the Department of Supply and Services furnishes certain computer processing services to government departments and agencies.

The Department of Industry, Trade and Commerce, the Department of Communications and Statistics Canada also have government-wide responsibilities for certain aspects of EDP that relate to their areas of interest.

An Advisory Committee on Information Systems has been established to review and advise the Treasury Board on EDP policies and guidelines. This Committee consists of senior officials from 20 departments directly or indirectly involved in using or providing EDP facilities and services.

Finally, EDP Security Evaluation and Inspection Teams are organized and operated by the Royal Canadian Mounted Police. On request, these teams inspect and report upon EDP facilities within the Government and facilities in the private sector which process government information.

## **Scope of Review**

**4.6** The CAISE Study gave priority to evaluating control over the computer processing of financial information. In the area of management control over EDP resources, only the following matters were reviewed:

- the process through which new systems are authorized, acquired and developed, consisting of the approval to initiate a project, the actual procurement of the required equipment and services, and the management and control of the project. This process was assessed by reviewing a number of systems currently being developed, and selected recent procurements of EDP goods and services; and
- the security over computer systems, data and services.

**4.7** Our review took into account:

- the policies, directives and guidelines set out in the Treasury Board Guide on EDP Administration;
- the role and responsibilities of the Treasury Board for the management of EDP resources in the Government; and
- departmental responsibilities for the management and control of their EDP resources.

The remainder of this Part presents our observations and recommendations.

## **Observations and Recommendations**

**4.8** Present practices by the departments we reviewed and by the Treasury Board Secretariat do not ensure that new systems are developed in the most efficient and cost-effective manner. For example:

- Effective technical and economic feasibility studies, including investigation of alternative approaches and cost/benefit analyses, are not being conducted on a consistent basis for major new systems development projects.
- Effective project management and control procedures are not being applied consistently in new systems development projects.
- Monitoring of the development of new computer-based systems has not been adequate to ensure compliance with established directives.
- The Treasury Board Guide on EDP Administration, which is designed to assist departments in managing and controlling EDP resources, is a useful document; however, it is incomplete and requires revision in the areas of project approval, management and control in order to meet fully its objectives.

**4.9** Existing guidelines and procedures for EDP security do not effectively meet the current needs of the Government.

**4.10 Development of new computer-based systems.** Without proper feasibility studies, there is the risk of making significant investments in developing systems that are economically unjustified or technically unsuitable.

Standards of documentation for feasibility studies require as a minimum:

- a detailed description of the proposed system;
- the impact of the proposed processing system on the organization structure;
- projected resource requirements, such as manpower, equipment and physical facilities, over the term of the development cycle and estimates for the first five years of operation;
- projected costs of developing the system (including conversion, training, testing of programs and systems, etc.) and of its subsequent operation;
- anticipated benefits of the proposed system;

- details of alternatives which were considered, and reasons for selecting the proposed approach;
- evidence of departmental management approval of the results of the study; and
- an outline of the development and implementation plan, and the related departmental project monitoring techniques.

Feasibility studies are necessary to support project approval and subsequently to measure the degree of success of the completed projects. While the Guide on EDP Administration does contain certain guidelines in this area, it contains neither mandatory directives requiring formal feasibility studies, nor does it provide standards for preparing, documenting and assessing such studies.

**4.11** *The Treasury Board Guide on EDP Administration should be revised to include mandatory directives, standards and related procedures for the documentation and approval of EDP feasibility studies. Where Treasury Board approval in principle for a project is required, it should be withheld until there is compliance with the directives.*

**4.12** The development of computer-based systems involves many complex and interrelated activities, and major development projects may require several hundred man-years of development effort and the expenditure of millions of dollars. By their very nature, these projects are subject to technical difficulties and, unless they are properly managed and controlled, can incur extensive time and cost overruns.

During the course of our review of recent equipment acquisitions and systems development projects, for the purpose of assessing the development process, we found that the project management and control techniques in use were generally weak. The following specific deficiencies were identified:

- inadequate planning and scheduling of resources;
- absence of detailed budgets and comparisons to actual achievement;
- lack of sufficient check-points for reviewing progress with senior departmental management;
- no clear assignment of responsibility for project management and control; and
- lack of proper accounting for the development costs.

The Guide on EDP Administration stipulates that departments shall establish "appropriate" development, planning and control systems to monitor their EDP



projects, and provides guidance on the essential procedures and techniques for each stage of development. It does not, however, set out the minimum standards against which departmental compliance can be measured. The Treasury Board resources and procedures applied to monitoring EDP development projects, as required by the Guide on EDP Administration, are not adequate to fulfil this role effectively.

**4.13**        *The Treasury Board Guide on EDP Administration should be revised to include project management and control directives and standards.*

**4.14**        *Departments should ensure that effective project management and control systems have been developed and are being used for all EDP development projects.*

**4.15**        *The Treasury Board Secretariat should perform effective monitoring and evaluation of all major EDP development projects.*

**4.16**        **EDP security.** Under the direction of the interdepartmental Security Advisory Committee, several sub-committees are developing policy and standards for the protection of data maintained on individuals and for the maintenance of security in the EDP environment. The development of government policy and standards for these two areas is required before proper direction can be given to departmental EDP personnel. A lack of appropriate standards could result in ineffective security in the EDP environment with the following implications:

- loss of data vital to the continuous operation of government programs;
- disruption of government services; and
- unauthorized disclosure of confidential data concerning government operations or individuals.

There are no formal security requirements for communicating so-called "private information". As a result, some private data are being transmitted between the main computer and remote locations without any special security measures. Since the present security classifications do not include a category for this type of information, it is generally designated "unclassified".

Although the Guide on EDP Administration provides general directives and guidelines for security in the EDP environment, it does not specify the standards of security to be applied to information of a classified or of a private nature, and does not provide adequate direction to departments and agencies for protecting information on individuals.



**4.17**      *Security standards and related procedures should be developed, published and enforced to:*

- *provide for the classification of data, including information on individuals, in appropriate categories; and*
- *establish the level of security required for each category of data.*

**4.18**      *The agency which provides independent assessments of the adequacy of EDP security within departments is the Royal Canadian Mounted Police through its Security Evaluation and Inspection Teams (SEIT). These teams function strictly in a consulting capacity to individual departments and have no authority to initiate security reviews or to ensure that recommendations are implemented.*

The RCMP teams have conducted a number of security reviews of outside service bureaux which process government data. None of the external service bureaux so reviewed has been cleared to process classified information. However, a number of instances were noted of departments using service bureaux for processing data that would appear to be of a classified or confidential nature.

**4.19**      *The Guide on EDP Administration should be amended to require departments to have qualified personnel perform regular EDP security evaluations. The Treasury Board Secretariat should monitor compliance with this requirement and should ensure that recommendations are acted on.*

**4.20**      *Immediate consideration should be given to implementing compensating control measures sufficient for ensuring that the security level of information processed at private sector computer service bureaux is not compromised, or to removing all classified information from those bureaux which have not been cleared to an appropriate security level.*



## **CONTROLS OVER FINANCIAL INFORMATION PROCESSED BY COMPUTERS**

### **Responsibility for Control**

**5.1 Departmental responsibilities.** Departments have primary responsibility for financial control through the establishment and operation of systems which ensure the accuracy, completeness and authority of financial information.

In the EDP environment, financial controls comprise the network of manual procedures and computer routines which ensure the completeness, accuracy and proper authorization of all data processed by the computer and the integrity of computer programs and data. This control network covers the entire system from the point where transactions originate, through computer processing, to the preparation of financial statements and management reports. The individual controls must be specified and built into the system during development, making it essential for financial personnel to be actively involved at that stage.

The lack of effective controls over processing of financial information in computer-based systems, as described in paragraph 5.5, could lead to:

- loss of funds due to undetected errors;
- loss of funds due to deliberate manipulation of transactions;
- incomplete or inaccurate accounting for public funds;
- incomplete or inaccurate management reports;
- excessive administrative costs relating to the manual effort required to correct errors; and
- inability to respond to the public's needs in a timely and accurate manner.

**5.2** To assist departments in achieving adequate financial control, the Treasury Board Guide on Financial Administration outlines the roles and responsibilities of various departmental groups, as follows:

- Data processing managers are responsible for developing and maintaining effective and efficient systems and for ensuring adequate control over computer operations.
- Financial administration officers within departments, and not data processing specialists, have ultimate responsibility for ensuring adequate controls over financial information being processed.

- Internal audit groups are responsible for evaluating the design and operation of departmental systems, which include computerized systems, and for determining the extent of compliance with the Government's financial policies and directives.

**5.3 Treasury Board responsibilities.** Although deputy heads have primary responsibility for the adequacy of financial management and control systems in their departments, the Treasury Board has overall responsibility for financial management throughout the Government. The Treasury Board has charged its Secretariat with responsibility for periodically evaluating and monitoring departmental financial systems, and assessing the extent of departmental compliance with directives and guidelines, as outlined in the Guide on Financial Administration.

### **Scope of Review**

**5.4** Nine major computer-based systems currently in use were selected for an in-depth evaluation of the adequacy of the controls over the processing of financial information. These systems are an integral part of programs which in 1975-76 accounted for approximately \$18,000 million of expenditures and \$22,000 million of revenues. Reports containing the observations and recommendations were prepared at the completion of each project and discussed with the responsible departmental officials who were asked to provide written responses to the recommendations. These reports, including the departmental responses, are printed in Part 6 of this Report.

As part of the review of controls over the management of EDP resources, the process by which financial controls are designed and implemented for new systems under development was examined. The applicability of existing Treasury Board policies, directives and guidelines to computerized systems and the degree of departmental compliance with these were also assessed. In addition, the capability of departmental internal audit groups to perform effective audits in a computerized environment was assessed.

### **Observations and Recommendations**

**5.5 Control over the processing of financial information.** The control inadequacies identified in the course of our review of the nine major systems varied from very significant to relatively minor. The individual reports to deputy heads, which are reproduced later in this Report, outline the significant control weaknesses identified within each department. Following is a summary of the types of control weaknesses identified:

- inadequate controls to ensure proper authorization of input transactions;
- lack of controls to ensure that all transactions are submitted for processing and are not lost during processing;

- insufficient control over changes to computer files containing permanent data (master files);
- inadequate controls to ensure that all processing errors are corrected and re-entered into the system;
- ineffective use of reports generated by the computer for control purposes;
- inadequate documentation of systems and programs and instructions to persons responsible for preparing input and for balancing and controlling output; and
- lack of adequate backup procedures for data files and computer equipment to ensure continuity of operation in the event of unforeseen major disruption.

**5.6** Many of these control weaknesses arise because:

- there is an assumption that the accuracy of information processed through a computerized system is the responsibility of EDP personnel, and not the concern of departmental financial personnel;
- responsibility for control is not always clearly defined between the users of the systems and the processors of the data;
- departments seldom designate specific financial officers to assume responsibility for the adequacy of controls in individual systems both during the development stage and after the systems become operational; and
- departmental internal audit groups have not conducted regular evaluations of departmental financial management and control practices as they relate to EDP systems.

Our review of systems revealed little evidence of effective involvement of financial personnel in the development process. Also, the primary control function which should be exercised by financial personnel over systems currently in operation is frequently missing.

**5.7** A contributing factor to the circumstances described above is the existence of uncertainty concerning the applicability of the provisions of the Treasury Board Guide on Financial Administration to all systems processing financial information. The Guide does not indicate clearly that systems such as the nine evaluated this year by the CAISE Study fall within its scope. Moreover, financial control standards and procedures specifically applicable to computerized systems have not been established by the Treasury Board. As a result, there is an absence of central direction and monitoring of management and control practices for financial information processed by computer systems.



**5.8** *Departments should clearly define the specific roles and responsibilities of departmental financial and data processing personnel for controls, and should ensure active participation by financial personnel in the specification, design and testing of computer systems and related controls.*

**5.9** *Through the use of suitable training programs, financial and EDP personnel should be educated in their respective roles and responsibilities concerning controls in the development and on-going operation of computer systems.*

**5.10** *The Treasury Board Guide on Financial Administration should be revised to include specific control standards and procedures for all financial information processed by computer systems and provision for effective monitoring of departmental compliance with these standards and procedures.*

**5.11** **Internal audit capability.** *The Treasury Board Guide on Financial Administration describes internal financial audit as:*

*an essential element of internal control which functions by reviewing, evaluating, and reporting to management on the adequacy of all other controls and on the detailed operation of the system of financial administration.*

The degree of computerization within the Government requires that a considerable number of internal audit groups have the capability either to conduct effective audits in a computerized environment or to obtain this expertise from external sources. However, our review indicated that there are few departmental internal auditors with the necessary expertise and that departments rarely contract for the services of outside computer audit specialists. As a result departmental internal audit groups do not regularly evaluate the adequacy of controls over computerized systems and therefore cannot be relied upon to disclose inadequate controls over financial information being processed by computers.

The use of computers does not change audit objectives but does affect the approach and procedures used by auditors to achieve these objectives. The existing standards for internal audit in the Government do not provide for adequate coverage of the unique aspects of auditing in a computerized environment and the computer audit work that is being done suffers from a lack of proper definition of audit scope and approach.

**5.12** *A comprehensive action plan should be developed to augment significantly the present internal computer audit capability in the Government. Such a plan should include an estimate of the computer auditing resources required together with plans for recruitment and training to develop those resources.*

**5.13**        *As part of its financial administration evaluation activities, the Treasury Board Secretariat should monitor to ensure that effective internal audits of computer-based financial systems are conducted on a regular basis.*

**5.14**        *Standards and related procedures for internal auditing in the computer environment should be established, published and enforced. These should be integrated with existing or planned standards for financial, management and security audits and should include requirements for:*

- *integration of the review of computerized aspects of systems and controls with other audit work;*
- *minimum levels of audit documentation for the computer portions of the system;*
- *use and control of computer-assisted audit techniques;*
- *evaluation of EDP security; and*
- *auditors trained in computer systems and related auditing techniques.*

\* \* \* \* \*

Reproduced below is the complete text of a letter dated October 20, 1977, from the Secretary of the Treasury Board in response to our request for his comments on the CAISE findings and recommendations included in Part 4 and this Part of the Report.

## Computer and Information Systems Evaluation Study



Secretary of The Treasury Board    Le Secrétaire du Conseil du Trésor

October 20, 1977

Mr. J.J. Macdonell,  
Auditor General,  
151 Sparks Street,  
Ottawa, Ontario.  
K1A 0G6

Dear Mr. Macdonell:

I would like to thank you for the opportunity to review and comment on the draft report of your "Computer and Information Systems Evaluation (CAISE) Study".

As you are aware, the Treasury Board's concern about EDP utilization in the Federal Government was enunciated in 1971. Significant improvements have already been made in the management, control and coordination of EDP resources, both departmentally and government-wide, since the introduction of the EDP policy in 1972 and the Guide on EDP Administration in 1974. Because EDP is such a fast-changing technological area, these Treasury Board policies and guidelines have been under continuous review and evaluation since the date of their promulgation. We therefore welcome the independent assessment and recommendations provided by the CAISE study.

Our comments on the recommendations in your report follow. As you will see, action has already occurred on a number of them, others are in progress and the remainder are under active consideration. I am sure you will appreciate the need, particularly in the present period of restraint, for us to apply rigorous cost-benefit analysis to the resource implications of any action we pursue.

### Recommendation 4.11

"The Treasury Board Guide on EDP Administration should be revised to include mandatory directives, standards and related procedures for the documentation and approval of EDP feasibility studies. Where Treasury Board approval in principle for a project is required, it should be withheld until there is compliance with the directives."

With respect to the first portion of this recommendation, the Information Systems Division will, in its planned revisions to Chapter IV ("Development and Control of EDP Projects") of the Guide on EDP Administration, take into account the suggested requirements. In the revision of the chapter, feasibility studies will be considered as the first step of project development and control procedures and standards.

Ottawa, Ontario  
K1A 0R5

The second part of the recommendation implies that departments would have to obtain Treasury Board approval in principle before proceeding with EDP projects beyond the feasibility study stage. This would be a new requirement for departments to make such submissions and for the Secretariat to review and recommend disposition of them. The impact of introducing such a change will be evaluated and appropriate action taken.

Recommendation 4.13

"The Treasury Board Guide on EDP Administration should be revised to include project management and control directives and standards."

This is agreed to and will be taken into account in the planned revision of Chapter IV ("Development and Control of EDP Projects") of the Guide on EDP Administration.

Recommendation 4.14

"Departments should ensure that effective project management and control systems have been developed and are being used for all EDP development projects."

This requirement has already been incorporated in the current revision of Chapter II of the Guide on EDP Administration entitled "Management Responsibilities for EDP".

Recommendation 4.15

"The Treasury Board Secretariat should perform effective monitoring and evaluation of all major EDP development projects."

Since 1974/75 the Information Systems Division has been involved in joint departmental/Treasury Board Secretariat monitoring of selected EDP development projects. The nature and scope of this function is under review, taking into account the resulting additional resource requirements for the Secretariat.

Recommendation 4.17

"Security standards and related procedures should be developed, published and enforced to:

- provide for the classification of data, including information on individuals, in appropriate categories; and
- establish the level of security required for each category of data."



## *Computer and Information Systems Evaluation Study*

As pointed out in paragraph 4.16 of the CAISE report, policy and standards for the classification and protection of personal and private information are under development. The current revision of Chapter X ("Security in an EDP Environment") of the Guide on EDP Administration has made provision for the implementation of such government-wide policies and standards.

### Recommendation 4.19

"The Guide on EDP Administration should be amended to require departments to have qualified personnel perform regular EDP security evaluations. The Treasury Board Secretariat should monitor compliance with this requirement and should ensure that recommendations are acted on."

This requirement has already been incorporated in the current revision of Chapter X, "Security in an EDP Environment", and is reinforced in the revision of Chapter II, "Management Responsibilities for EDP".

### Recommendation 4.20

"Immediate consideration should be given to implementing compensating control measures sufficient for ensuring that the security level of information processed at private sector computer service bureaux is not compromised, or to removing all classified information from those bureaux which have not been cleared to an appropriate security level."

This concern is already being acted upon in that interim security guidelines are being developed which will be included, as appropriate, as contractual requirements. This should alleviate the problems associated with processing "private" information in the private sector until the government-wide security standards are available.

### Recommendations 5.8 and 5.9

"Departments should clearly define the specific roles and responsibilities of departmental financial and data processing personnel for controls, and should ensure active participation by financial personnel in the specification, design and testing of computer systems and related controls."

"Through the use of suitable training programs, financial and EDP personnel should be educated in their respective roles and responsibilities concerning controls in the development and on-going operation of computer systems."

The Treasury Board Secretariat will review the section in its Guide on Financial Administration concerning the roles and responsibilities of financial and data processing personnel to ensure that it adequately sets out responsibilities for the specification, design and testing of computer systems. The Treasury Board also undertakes to review the training requirements necessary to provide the required expertise.



## *Computer and Information Systems Evaluation Study*

### Recommendation 5.10

"The Treasury Board Guide on Financial Administration should be revised to include specific control standards and procedures for all financial information processed by computer systems and provision for effective monitoring of departmental compliance with these standards and procedures."

The Guide on Financial Administration presently refers financial officers to Computer Control Guidelines, published by the Canadian Institute of Chartered Accountants. The adequacy of this approach will be reviewed and appropriate action taken. The Treasury Board will also issue guidelines to ensure effective monitoring of compliance.

### Recommendations 5.12, 5.13 and 5.14

"A comprehensive action plan should be developed to augment significantly the present internal computer audit capability in the Government. Such a plan should include an estimate of the computer auditing resources required together with plans for recruitment and training to develop those resources."

"As part of its financial administration evaluation activities, the Treasury Board Secretariat should monitor to ensure that effective internal audits of computer-based financial systems are conducted on a regular basis."

"Standards and related procedures for internal auditing in the computer environment should be established, published and enforced. These should be integrated with existing or planned standards for financial, management and security audits and should include requirements for:

- integration of the review of computerized aspects of systems and controls with other audit work;
- minimum levels of audit documentation for the computer portions of the system;
- use and control of computer-assisted audit techniques;
- evaluation of EDP security; and
- auditors trained in computer systems and related auditing techniques."

A Treasury Board study is nearing finalization which will clearly define the objectives and role of internal financial audit, including computer auditing and will establish standards for the conduct of such audits. The Financial Administration Branch is currently assessing the impact that the proposed standards will have on auditing resources, including computer auditing. At the same time

## *Computer and Information Systems Evaluation Study*

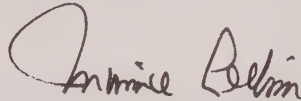
an Interdepartmental Committee on Internal Financial Audit is determining the training needs of the financial audit community in order to meet the requirements of the proposed standards.

The standards document, resulting from the Study of Internal Financial Audit, clarifies responsibilities for auditing computer-based financial systems and the Treasury Board Secretariat's responsibility to monitor such audits.

The Interdepartmental Committee on Internal Financial Audit has commenced a project to develop an "Internal Audit Handbook" which will contain procedures for the conduct of internal audits, including computer audits.

Thank you for the opportunity of commenting on your recommendations and I look forward with interest to the subsequent phases of the CAISE study.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Maurice LeClair". The signature is fluid and cursive, with the first name "Maurice" written in a larger, more prominent script than the last name "LeClair".

Maurice LeClair.

**6**

**FINANCIAL CONTROLS IN NINE MAJOR COMPUTER-BASED SYSTEMS**

**Introduction**

**6.1** As noted in Part 3, nine major computer-based systems were subjected to an in-depth review and evaluation of controls over the processing of financial information. The systems selected for review were:

Department of Finance	-	Canada Student Loans System
	-	Provincial Revenue Equalization Payments System
Department of National Defence	-	Central Computational Pay System
Department of National Health and Welfare	-	Family Allowance System
	-	Old Age Security/Guaranteed Income Supplement System
Department of National Revenue-Taxation	-	T-1 Processing Stream
Post Office Department	-	Cash Receipts and Money Order Systems
Department of Supply and Services	-	Central and Regional Pay Systems
Unemployment Insurance Commission	-	Benefit and Overpayment System

During the reviews, which were oriented toward evaluating financial controls, a number of points relating to the management of EDP resources were noted and brought to the attention of departmental management.

Following completion of the reviews, the detailed findings were discussed with EDP and financial personnel and summaries of our observations and recommendations were prepared. These summaries were discussed with the respective deputy heads, who were asked to respond in writing to the recommendations.

**6.2** It should be noted that although the scope of our reviews was tailored to each specific system, the primary objective remained consistent. It was to evaluate the overall adequacy of controls over the processing of financial

information. The reviews were intended to identify the weaknesses in internal controls and did not include the tests required to seek out specific instances of errors or irregularities, or to quantify the financial impact of control deficiencies.

**6.3** The results of the CAISE Study will be taken into account in planning and conducting our continuing audits and will be used to assess the scope of audit programs and procedures. Nevertheless, the nature and extent of audit tests cannot compensate for failure to have adequate control over EDP activities in the first instance. Our reports to the departments, and their responses, follow.

## **DEPARTMENT OF FINANCE - Canada Student Loans System**

**6.4** The financial and accounting controls over the Canada Student Loans System were reviewed during the period January to March 1977.

The Canada Student Loans System provides for paying interest on loans by approved lending institutions to qualified students in Canada. Interest on these loans is paid by the Department until six months after completion of the schooling and the loans are guaranteed by the Government.

The system comprises the Loan Sub-system and the Claims Sub-system, and their related master files. The Loan Sub-system produces a file of all loans contracted between students and lending institutions. From this file the Department generates interest payments to lending institutions during the time that the student is eligible for these payments. The Claims Sub-system produces a file of loans to students who have not met repayment terms agreed to with the lending institutions. Loans are placed on this file after repayment of the loans by the Department to the lending institutions. The Department then follows up the collection of these loans including principal and accrued interest.

Our review of controls focused on both the computerized portion of the system and the related manual procedures. It excluded procedures for the authorization of loans by lending institutions and by provincial authorities.

**6.5 Summary of observations.** Serious weaknesses exist in the financial and accounting controls over the Claims Sub-system, impairing the assurance that data processed are complete and accurate.

The level of documentation of both sub-systems is inadequate and the procedures for program changes are not adequate to ensure that only authorized changes are made to the programs.

The following are the detailed observations and recommendations arising from our review.

**6.6 Control over computer input to the Claims Sub-system.** There are no controls to ensure that all data are processed to the claims file or that all rejected data are properly acted on before re-entry to the system.

*Recommendation.* Control totals of all data entering the Claims Sub-system should be prepared and reconciled to computer printouts by someone independent of their preparation and of the computer processing activity.

*Departmental Comment.* Control totals of all data entering the Claims Sub-system are prepared and procedures have been instituted to reconcile these to Department of Supply and Services computer printouts on a monthly basis. The reconciliation is carried out by the Supervisor, Accounts Sub-section, who is not directly involved in the preparation of the control totals or the computer processing activity.

*Recommendation.* All data rejected by the Claims Sub-system should be investigated and corrected for re-entry into the system and supervisory personnel should ensure that proper action is taken on all rejected data.

*Departmental Comment.* With the appointment of the Head of the Accounts and Administrative Section, this recommendation has been implemented.

**6.7 Segregation of duties.** At present the responsibilities of the Supervisor, Accounts Sub-section permit modification of the claims and of the loans master files without independent review. This can result in unauthorized or erroneous adjustments of the master files, which, in the case of the loan master file, could cause incorrect payments of interest.

*Recommendation.* The responsibilities of the Supervisor, Accounts Sub-section and the Head of the Accounts and Administrative Section should be redefined to provide for effective segregation of duties.

*Recommendation.* Supervisory personnel should review the action taken in correcting exceptions reported in the Loan Sub-system and take appropriate action to ensure that all exceptions are properly dealt with.

*Departmental Comment.* The responsibilities of the Head of the Accounts and Administrative Section currently include that for proper control of input data. At the time of audit, the position was vacant and some responsibilities of that position had temporarily been assumed by the Supervisor, Accounts Sub-section. An incumbent for the Head of Section position has now been appointed and the segregation of the duties referred to will follow.



**6.8 Documentation of systems and programs.** The existing documentation of systems and programs is insufficient to facilitate changes to the systems and to accommodate employee turnover without undue difficulty.

*Recommendation.* Proper documentation, including documentation of the computer programs and all clerical procedures related to the systems, should be developed and updated on a current basis.

*Departmental Comment.* Original documentation for both Sub-systems was completed; however, documentation of subsequent modifications to the systems has not been completed. Basic documentation will be put in order during the planned consolidation of the two programs due to start shortly.

**6.9 Changes to computer programs.** Current procedures for modifying computer programs do not require proper and documented approvals, leaving the Department exposed to the risk of unauthorized or erroneous amendments.

*Recommendation.* Formal computer program modification procedures should be established and enforced. These should include:

- a standard computer program modification request form;
- a requirement for evidence of authorization by a senior official; and
- proper testing procedures and evidence of approval of test results before implementation.

*Departmental Comment.* Management approval for all amendments to computer programs has been re-introduced. No program changes, testing and programming requests can now be accepted by the service bureau without signed authorization by specified senior officers.

## **DEPARTMENT OF FINANCE - Provincial Revenue Equalization Payments System**

**6.10** The financial and accounting controls over the Provincial Revenue Equalization Payments System were reviewed during the period January to March 1977.

The function of the system is to calculate equalization payments to provinces under Part I of the Federal-Provincial Fiscal Arrangements Act, R.S., c. F-6. The system maintains data relating to revenues and capacity to earn revenues, and to population statistics for each province. From this data the system calculates the amount of the equalization payment to be made to each province. The total payments made by this program in 1976-77 approximated \$2,200 million.

Our review of the controls covered both the computerized portion of the system, which is processed at a private sector computer service bureau, and the related manual procedures. It excluded procedures which generate the information used as input to the system and the procedures which prepare the payments to the provinces.

The following are the detailed observations and recommendations arising from our review. Rather than providing a response to each recommendation, the Department chose to provide summary comments on our findings. These comments appear in paragraph 6.15.

**6.11 Computer input forms.** The present method of keying information into the computer directly from source documents without the use of specific computer input documents increases the likelihood of errors and obscures the audit trail.

*Recommendation.* Special computer input forms should be designed to reduce the likelihood of errors occurring and to provide a more readily accessible audit trail from input through to the final reports.

**6.12 Changes to computer programs.** Computer program modification procedures do not require proper and documented approvals based on test results, leaving the Department exposed to the risk of unauthorized or erroneous amendments to computer programs.

*Recommendation.* Computer program modification procedures should be established and adhered to, with particular emphasis on proper testing and evidence of approval of test results before implementing the modification.

**6.13 Documentation of systems and programs.** The existing documentation of the system and its programs is insufficient to facilitate changes to the system and to accommodate employee turnover without undue difficulty.

*Recommendation.* Proper documentation of the system, including documentation of the computer programs, and procedure manuals for the terminal operator and system users should be developed and updated on a current basis.

**6.14 EDP security.** Present security procedures are not adequate to protect the integrity of the computer programs and data. Access to data could be gained and unauthorized changes could be made either through the terminal or by someone with access to the computer service bureau.

*Recommendation.* The Department should take full advantage of the password protection available within the computer service bureau to reduce the likelihood of unauthorized access.

**6.15** The Department of Finance provided the following summary comments in response to the above observations and recommendations on its Provincial Revenue Equalization Payments System.

*Departmental Summary Comments.* The Department of Finance concurs with the substance of each of the observations and recommendations made by the Computer and Information Systems Evaluation Study of the computer-assisted system which has been used in recent years to determine the amount of federal equalization payments to provinces. In June 1977, a reallocation of professional staff was put into effect to support this program with more expertise in computer system development and operation. An internal review of the existing information and computer system is now being carried out to assess all electronic data processing requirements related to the computation of equalization, with the objective of developing a more comprehensive approach. The preliminary conclusions of this review suggest that a substantially modified system should be adopted. A small group, involving program officers and system analysts, has been established to design and implement such a system. It is expected that each of the recommendations of the Computer and Information Systems Evaluation Study will be incorporated in the new system. However, pending a complete review of the electronic data processing requirements and the specifications of the revised system, it is too early to determine the exact ways in which this will be done. The new system will relate to the new equalization program which went into effect on April 1, 1977.

#### **DEPARTMENT OF NATIONAL DEFENCE - Central Computational Pay System**

**6.16** The controls over the functions of the Central Computational Pay System which are performed at headquarters were reviewed during the months of January and February 1977. This System processes an annual payroll of approximately \$1,500 million for 78,000 military personnel, representing approximately 40% of the Department's annual expenditures. We excluded from our review the manual payroll procedures carried out at the various military bases.

The Central Computational Pay System is designed with adequate financial and accounting controls. We noted certain minor instances where excessive clerical effort was expended in support of these controls in the following areas:

- the reconciliation of cheques written by the Department of Supply and Services with amounts requisitioned; and
- the handling of rejected input transactions.

These instances were brought to the attention of departmental officials, together with our related recommendations. The Department has accepted these observations and has the recommendations under consideration for implementation.

**6.17 Computer equipment backup plan.** In the course of our review, we noted that, while computer equipment backup plans have been developed for individual systems, an overall computer equipment backup plan does not exist to cover the possibility that if either the Borden or Ottawa Data Centre were unable to function, the remaining Centre could not handle the total processing load. Computer applications have not been ranked so that only the applications with top priority would be processed in the event of one data centre becoming partially or completely inoperable.

*Recommendation.* The Department should develop a computer equipment backup plan for the Borden and Ottawa Data Centres including the ranking of computer applications by "need-to-process" and also including provisions for the use of non-Department of National Defence computer facilities. Subsequently, the staff responsible for each application should plan how to use the backup arrangements and these plans should be subjected to tests.

*Departmental Comment.* The development of an overall computer equipment backup plan is being addressed as part of the planned integration of all Automatic Data Processing systems at Bases, Commands and the Data Centres at Ottawa and Borden. The ranking of computer applications, provision for use of non-Department of National Defence facilities and the testing of backup arrangements will be included in our planning and implemented in accordance with the availability of resources.

#### **DEPARTMENT OF NATIONAL HEALTH AND WELFARE - Family Allowance and Old Age Security/Guaranteed Income Supplement Systems.**

**6.18** We reviewed the financial and accounting controls over the Family Allowance and the Old Age Security/Guaranteed Income Supplement Systems during the months of March and April 1977.

The Family Allowance Program disbursed \$2,000 million and the Old Age Security/Guaranteed Income Supplement Program disbursed \$4,000 million in 1975-76.

The manual portions of the systems, which include all communications with the beneficiaries, the authorization and coding of all transactions and the management of the contents of the master files, are performed by 10 regional offices of the Income Security Programs Branch. Our review of this portion of the systems was carried out in the Ontario Regional Office only.

The design and implementation of the computerized portion of the systems is carried out by the Department of Supply and Services. Our review of these activities was conducted in Ottawa.



The regional computer centres of the Department of Supply and Services process the transactions of both systems. Our review of this aspect of the systems was carried out in the Ontario Regional Centre.

We did not review the cheque issue function of the systems.

**6.19 Observation.** Certain controls over the status of Family Allowance and Old Age Security/Guaranteed Income Supplement beneficiaries cannot be completely effective due to factors beyond the control of the Department or to the difficulty and cost of applying these controls. For example, some verification requirements are dependent upon the availability of timely and accurate data prepared by non-departmental sources. The Department has recognized the need to make its controls more effective and has taken and is taking measures to develop procedures to reduce the risk of incorrect payments.

Subject to the above:

- The Old Age Security/Guaranteed Income Supplement System is designed with adequate financial and accounting controls. Some minor elements of financial control have not been implemented in the Ontario Region and these were brought to the attention of the departmental officials together with our recommendations for their implementation.
- The Family Allowance System, developed a number of years ago, only requires some minor modifications to bring the financial and accounting controls up to the level of control designed for the Old Age Security/Guaranteed Income Supplement System.

The Department has accepted these observations and has our recommendations under consideration for implementation.

*Departmental Comment.* Senior officials of the Department have reviewed this report and are in agreement with its contents.

## **DEPARTMENT OF NATIONAL REVENUE, TAXATION - T-1 Processing Stream**

**6.20** Our review of controls over the T-1 Processing Stream was carried out in February and March 1977.

The T-1 Processing Stream consists of a series of integrated manual and computerized systems and sub-systems used to process, collect and account for revenues of approximately \$20,000 million per year (1975-76) received from individual Canadian taxpayers. This includes amounts collected on behalf of the Canada Pension Plan and the Unemployment Insurance Commission.

Our review focused on internal procedural controls over the following aspects of the electronic data processing operations in the T-1 Processing Stream:



- Organizational controls over the Systems Group, including division of duties, controls over systems development in connection with the direct data entry system and practices followed in systems revisions and in systems documentation.
- Operations and controls over input documents, computer processing activities and output, including balancing and distribution at the Ottawa Data Centre.
- Physical safeguards to provide continual computing capability and security for data, systems and equipment at the Ottawa Data Centre.

We also reviewed the controls exercised over systems development as it relates to CORPAC (Corporation Tax Accounting and Collections System).

The scope of our review took into consideration that in the T-1 Processing Stream overall controls are enhanced by significant audit activities on individual tax returns, not the least being the checks taxpayers carry out on their returns or accounts or both.

**6.21 Summary of observations.** Based on our review, the electronic data processing operations in the T-1 Processing Stream generally are adequately controlled. However, the following weaknesses in control exist:

- The limited involvement by users of financial accounting information in system-testing procedures and, to a lesser extent, the lack of readily accessible audit trails for the general ledger posting summaries have the effect of weakening user control over financial accounting.
- Insufficient participation by users in long-term planning and the lack of adequately defined standards for feasibility studies and project management have the effect of weakening user control over the systems being developed on their behalf.
- The lack of comprehensive formalized plans and procedures to ensure continued computer operations would significantly impair the operations of the Department should the facilities at the Ottawa Data Centre become inoperative for an extended period of time.
- While access to the computer room area is adequately controlled, the possibility of access to other sensitive areas in the building complex by unauthorized persons weakens the EDP security and the control over the confidentiality and integrity of information.

The following are the detailed observations and recommendations arising from our review.

**6.22 Testing of new systems.** The responsibilities of users of financial accounting information for testing new or revised systems have not been clearly defined. Current testing procedures are incomplete since they do not always provide for comparing predetermined accounting information with results of tests. Accordingly, users do not have complete assurance that accounting information generated by some computerized systems is reliable. Furthermore, there are no readily accessible audit trails for assessing the accuracy of the general ledger posting summaries these systems generate.

*Recommendation.* Formal system testing and acceptance standards should be established and enforced. These standards should include requirements for the preparation and approval of test plans, formal approval of test results and the comparison of predetermined accounting information with the results of tests. Particular attention should be given to defining clearly the role and responsibilities of users of financial accounting information in system testing.

*Departmental Comment.* Agree with the establishment of formal systems and testing acceptance standards.

*Recommendation.* The Finance Directorate should insist on readily accessible audit trails for all computer-generated posting summaries.

*Departmental Comment.* Agree.

**6.23 Control over journal vouchers.** Controls over certain journal vouchers, used to effect transfers of funds from the account of one tax remitter to that of another, are not adequate to detect inadvertent processing, loss of data or unauthorized manipulation of data from within the Department. Lesser exposures relate to inefficiency and embarrassment in dealing with taxpayers. Compounding this problem is the fact that a taxpayer may not be advised of a charge or credit to an account for a significant period of time.

*Recommendation.* Batch controls over certain journal vouchers used to effect transfers of funds from the account of one tax remitter to that of another should be established from the point of origin until after processing, and checks for authorized approvals should be performed when such journal vouchers are entered into the computerized stream.

*Departmental Comment.* Agree.

*Recommendation.* Computer-produced debit or credit memos should be sent for verification purposes to a tax remitter automatically whenever there has been a charge or credit to an account. We understand that practical consideration may make it necessary to exclude certain housekeeping transactions from this procedure; however, such exceptions should be minimized.

*Departmental Comment.* While we agree in principle, the practical consequences of advising the taxpayers must be considered. The implementation of this recommendation could generate a volume of needless enquiries, so the proposal will require careful examination by the Department before a decision is made to implement.

**6.24 Long-term planning for systems.** Senior line managers in the Department are working with highly integrated manual and computerized systems and, therefore, long-term planning for effective and efficient systems must include planning for both human and EDP resources. Formalized, comprehensive long-term objectives and plans have not been developed by all senior line managers for optimal use of all resources. Rather, it appears that leadership in the areas of systems development and systems revisions has been relinquished to the Systems Group. Consequently, long-term plans for systems could be developed which do not adequately reflect long-term requirements of users.

*Recommendation.* Procedures should be established to ensure that user management, including financial personnel, develop comprehensive long-term plans for their manual and computerized activities and the Systems Group's long-term EDP systems development plan should reflect user management's defined requirements. Priorities for all systems development and maintenance work should then be set by user management, and detailed scheduling should be carried out jointly by the Systems Group and user management.

*Departmental Comment.* Agree.

*Recommendation.* Planning should include a clear differentiation between systems development and systems maintenance. Costs incurred in each activity should be accounted for separately and should be planned, controlled and evaluated by the Systems Group and by user management.

*Departmental Comment.* Departmental management will give some further consideration to this recommendation.

**6.25 Standards.** Standards for feasibility studies and project management, including those for Systems Group and user management participation in both of these areas, are incomplete or non-existent.

*Recommendation.* Formal standards for performing, documenting and approving feasibility studies, for system testing and for project management should be established and enforced. Particular attention should be given to defining clearly the roles and responsibilities of the users in these processes.

*Departmental Comment.* We agree with the establishment of standards for feasibility studies and project management.

**6.26 Documentation of systems and programs.** Certain user requirements for systems revisions and sound recommendations for revisions made by the Management Audit Branch have been deferred, partly because some systems and sub-systems have become very cumbersome and time-consuming to amend. This problem is aggravated by the fact that documentation standards are not always adhered to in providing up-to-date systems and program narratives and that narratives for systems interactions are not available.

*Recommendation.* Systems documentation should be improved so that a clear understanding of the effect of a transaction on all systems and sub-systems can readily be obtained by the Systems Group and user management.

*Departmental Comment.* We continuously monitor systems documentation and, although we have noted marked improvement over the years, we agree that further improvement is required.

**6.27 EDP security and backup.** No comprehensive formalized plan exists to enable the Department to re-establish its EDP capability if it were unable to use its facilities at the Ottawa Data Centre for an extended period of time. Also, critical computer programs, data files and systems documentation are not adequately backed up at an off-site location and no formal arrangements have been made for backup equipment.

*Recommendation.* To ensure continued computing capability, comprehensive plans and procedures should be developed, formalized and tested regularly to provide for the use of equipment, critical computer programs, data files and systems documentation in the event that the facilities at the Ottawa Data Centre are not available.

*Departmental Comment.* We agree to do a sensitivity study which has already commenced.

*Recommendation.* These plans and procedures should include off-site storage and regular updating of critical data, programs and systems.

*Departmental Comment.* We agree to look at this in relation to the Bureau of Management Consulting Services study presently underway for all Departments with regard to off-site storage.

**6.28 Access to confidential information.** Access to confidential information by unauthorized persons is possible because:

- physical access controls over certain time-sharing computer terminals are weak; and
- control over data tapes leaving the Department for non-routine activities is inadequate.



*Recommendation.* To protect against unauthorized access to confidential information, time-sharing computer terminals should be removed from the Direct Data Entry area and placed in an area with an appropriate level of physical security. Data tapes leaving the computer centre for non-routine purposes should be subjected to the same tight controls applied to all other data tapes leaving the Centre.

*Departmental Comment.* Agree and corrective action has been taken.

## **POST OFFICE DEPARTMENT - Cash Receipts and Money Order Systems**

**6.29** During the period February to April 1977, we reviewed the two major financial computer systems within the Post Office Department, the Cash Receipts and Money Order Systems, as they are processed by the Cash Account Division, the Money Order Division and the EDP installation in Post Office Headquarters.

These systems control the flow of cash and other monetary transactions, which in total amount to almost \$2,000 million per year, and are accounted for on an imprest basis by approximately 8,600 postmasters across Canada.

Our review included only the functions performed at Headquarters. Manual procedures at the post offices were not examined.

The work performed included:

- an evaluation of the financial and accounting controls; and
- an assessment of the physical safeguards to provide continual computing capability and security for the data, the systems and related equipment.

**6.30 Summary of observations.** Our review indicated that the operation of the systems is generally well controlled. However, two general conditions exist which weaken the ability of the systems to control the cash transactions of post offices. First, there is a high degree of reliance on the automated verification and reconciliation processes without sufficient human monitoring of the results or control over program revisions to justify such reliance. Second, practical problems are being encountered in the follow-up of discrepancy reports produced by the systems and in the entering of adjustments. Thus any losses which do occur can accumulate before they are detected.

Additionally, because of the nature and timing of the various processing modules and of the accounting practices in force, there is little reconciliation between system reports and related general ledger accounting records.

Finally, backup duplicates of critical computer files are not, in our opinion, safeguarded adequately because of the proximity of their off-site storage area to the computing facility.



Our detailed observations and recommendations follow.

**6.31 Reliance on computer programs.** A large portion of the verification and reconciliation procedures is automated through computer programs and there is a high degree of reliance placed on these automated procedures. The discrepancies revealed by the computer systems are investigated so that they can be corrected and their causes identified. However, little attention is given to ensuring, through such techniques as balancing to overall control totals, that all discrepancies are detected.

*Recommendation.* Present reliance on computer programs should be supplemented by computer and manual balancing, covering reconciled as well as unreconciled items. This would ensure the integrity of the total amounts processed and thereby enable detection of discrepancies which may have passed unnoticed through the computer reconciliation programs. Furthermore, the facility to trace transactions through the systems should be improved to allow processed transactions to be tested periodically.

*Departmental Comment.* More complete balancing procedures and audit trails will be incorporated into the systems.

**6.32 Changes to computer programs.** Programmers can make changes to system programs without independent approval of the revised coding. Frequently, the changes are tested in subsequent computer runs with "live" data and without adequate review to ensure there are no unauthorized changes or unanticipated effects resulting from changes made. This flexibility in program maintenance can result in erroneous procedures accidentally or deliberately being inserted in critical programs. Within the Cash Receipts System, for example, it could permit an undetected discrepancy between a deposit reported on a postmaster's cash account statement and the Bank of Canada record of deposit. Within the Money Order System, a discrepancy between the amount of a money order issue voucher and the amount for which the money order was cashed could go unreported through the introduction of a program error.

*Recommendation.* Revisions to critical computer programs should be independently reviewed and approved for accuracy and validity before implementation. In addition, "live" files should not be used for testing purposes. Instead, special test files, with predetermined results and control totals, should be created for testing all such revisions.

*Departmental Comment.* A formalized control system concerning program changes will be established between Treasury Operations and Management Information Systems.

**6.33 Investigation of discrepancies.** At the time the systems were designed, the various processing and control functions that needed to be performed within them were identified. However, technical and administrative problems have been

encountered in making these fully operational and, as a result, excessive delays in making necessary adjustments have occurred in the Cash Receipts System. For example, the average time from the receipt of a postmaster's monthly cash account statement, which is about two weeks after the month-end, to the issuance of resulting notices of adjustment is approximately seven weeks, despite continual efforts by the Department to improve the situation. Losses could become sizeable before departmental procedures (or the periodic field audits) detect them and this can adversely affect their recoverability.

*Recommendation.* Although some progress is being made in reducing delays, considerable restructuring of the Cash Receipts System is required to significantly improve the timeliness of verification and reconciliation procedures. We understand that the Post Office is planning to rewrite several of the system modules to incorporate improvements. The need for improved control in this area should be carefully assessed in determining the nature of the revisions and how soon they will be implemented.

*Departmental Comment.* A comprehensive plan for restructuring of the System was in existence before this audit and is being implemented; this, together with additional controls and audit trails, will provide significant improvements.

**6.34 Approval of adjustments.** Adjustments to Money Order transactions by audit clerks do not always receive independent written authorization by supervisory personnel. This could result in inaccurate or improper adjustments being submitted for processing.

*Recommendation.* Procedures requiring written approval of adjustments being made as a result of Money Order exception reports should be published and enforced.

*Departmental Comment.* There are a number of procedures designed to safeguard against inaccurate or improper audit adjustments. However, we shall ensure adequate verification by supervisory personnel.

**6.35 Accounting practices.** The accounting records produced by the computer for the Cash Receipts and Money Order Systems do not correspond with the Department's general ledger. For example, there is a sizeable balance in the suspense account which reconciles the Cash Receipts System to the postmaster control account. This amount cannot be cleared, apparently because its components are unknown.

Outdated, uncashed money orders are deleted from the computer system but there is no procedure to permit the amounts written off to be reflected in the general ledger.

In addition to its operational functions, such as controlling supplies of vouchers, the Money Order System is viewed basically as a means of detecting illegally cashed money orders. We believe, however, that it also has the potential to serve as an effective accounting tool in support of the accuracy of the general ledger liability control account. At present, it is not serving this purpose.

*Recommendation.* Procedures for reconciling output reports to each other and to the general ledger should be developed and implemented to provide a check on the accuracy of the reports and to permit the use of computer records in support of accounting totals (such as the liability for money orders). This will require a major revision to the systems and its feasibility should be carefully assessed in conjunction with the existing revision plans.

*Departmental Comment.* This will be done, where feasible.

*Recommendation.* Present known differences between computer reports and general ledger totals should be investigated and corrected and consideration should be given to establishing specific accounting controls over outdated, uncashed money orders deleted from the computer system.

*Departmental Comment.* This will be done.

**6.36      Compensating procedures.** There are a number of compensating procedures in effect which limit the Post Office's exposure to loss from the above problems. These include periodic field inspections of post offices, reviews by regional financial officers and rotation of editing personnel. Also, postmasters are held personally accountable for their financial transactions.

**6.37      Backup files.** Backup files of the Cash Receipts and Money Order Systems are stored in an area which is too close to the computer centre to ensure adequate security. Although there is reasonable fire protection, other hazards affecting the computer centre also could affect these files.

*Recommendation.* Backup copies of current files of the Cash Receipts and Money Order Systems (and of all other critical systems) should be stored at a secure location in a separate building complex.

*Departmental Comment.* This will be done.

## **DEPARTMENT OF SUPPLY AND SERVICES - Central and Regional Pay Systems**

**6.38**      We reviewed the financial and accounting controls over the Department of Supply and Services Central and Regional Pay Systems during the period September 1976 to March 1977.

The Regional Pay System, with seven pay offices located across Canada, pays 142,000 public servants; the Central Pay System pays approximately 158,000 public servants, the majority located in Ottawa. Disbursements by these systems approximated \$5,500 million in the fiscal year 1976-77. At present, both systems are undergoing change; the Central Pay System is gradually being phased out and major modifications are underway to upgrade the Regional Pay System.

Controls in the systems were reviewed from the initiation of pay transactions in a department through to the production and distribution of payroll cheques and paylists. The processing of expenditure distribution, deduction remittances and T-4 information was also reviewed. We excluded from our review the interfaces of the two pay systems with other government systems such as Cheque Redemption Control and the Financial Reporting System.

In the Central Pay System, our review covered pay procedures at the Central Pay Division of the Compensation Services Branch, Department of Supply and Services and at three pay and benefits offices of individual departments. In the Regional Pay System, we reviewed three regional services offices of the Department of Supply and Services and selected regional pay and benefits offices of eight departments.

**6.39 Summary of observations.** The pay processing procedures in the Central and Regional Pay Systems contain significant control deficiencies. The deficiencies are such that present controls are inadequate to ensure the completeness, accuracy and proper authorization of the pay transactions.

Of specific concern are the lack of adequate control over the processing of input documents, particularly those which initiate extra duty and other non-regular pay transactions, and the apparent absence of proper financial and accounting controls in the departments over pay transactions.

If successfully implemented, the changes in system design in the Regional Pay System currently under development by the Department of Supply and Services will correct many of the present control deficiencies in processing pay transactions through the computer systems. Based on our discussions with the Department of Supply and Services, the plans appear to be progressing favourably and target dates for implementation appear to be on schedule. However, many of the planned changes are a year or two away from complete implementation and interim measures considered necessary to counter some of the major control deficiencies in both the Central and Regional Systems are insufficient.

Most of the deficiencies in the financial controls that user departments exercise over pay information have been identified in previous studies by our Office (1976 Report - paragraphs 11.1 and 11.2; 1975 Report Supplement - paragraphs 5.25 to 5.38 and 6.23 to 6.27) and most recently in the Treasury Board's Pay Study Task Force Reports of January 1976 and November 1976. The Treasury Board Secretariat's Pay Administration Co-ordination Unit, which was established as a result of the Task Force Report, is charged with co-ordinating the new pay administration function among the Treasury Board, the Department of Supply and Services and the user departments.



The following are the detailed observations and recommendations arising from our review.

**6.40 Control over pay input documents.** In batch-based computerized systems such as the Regional and Central Pay Systems, the assurance that all, and only, authorized transactions are processed correctly depends to a large extent on the batching of all input transactions and on controlling the batches from their point of origin until after the completion of computer processing. Present control procedures are deficient because:

- Departments do not ensure that input documents are properly transmitted to the Department of Supply and Services for processing. In particular, where payroll documents are batched, no proper batch-control records are maintained. Thus documents or entire batches could be lost and unauthorized documents and batches could be added. Also, overtime and extra duty pay documents are not always batched for submission to the Department of Supply and Services for processing. Recently, that Department has issued instructions that require departments to send batch transmittal advices with every type of input document; however, all departments have not yet implemented this requirement.
- Present batch-control procedures for processing documents within the Department of Supply and Services' systems are not adequate. For instance, batches received by the Department from the user departments are often split apart and rebatched for processing. There are no procedures for reconciling the rebatched documents with the original batches to ensure that documents have not been lost or that unauthorized documents have not been added. Also, input documents that are raised within the Department of Supply and Services (such as bulk revision forms) are not always batched and controlled from the point of origin.

We have been informed that for the Regional Pay System new batch-control procedures were implemented effective May 1, 1977, in the Edmonton Regional Services Office and that plans are underway to implement similar procedures in the other offices.

*Recommendation.* Immediate steps should be taken to ensure that user departments are aware of their responsibility for controlling input documents submitted to the Department of Supply and Services, and that more effective batch-control procedures are implemented within the departments.

*Treasury Board Secretariat Comment.* Treasury Board Circular No. 1977-37 dated July 28, 1977, describes the requirements for controlling input documents submitted to the Department of Supply and Services effective with the full implementation of the Regional Pay System. While the mechanics of document control may change with the full implementation of the Regional Pay System, the principles contained



in the Circular are applicable at present. As pointed out in the observation, the Department of Supply and Services is taking interim steps to ensure control of input documents.

*Recommendation.* The Department of Supply and Services should continue to give priority to implementing improved batch-control procedures within the Regional Pay System. Moreover, interim measures of a practical nature should be taken to strengthen controls in the Central Pay System.

*Department of Supply and Services Comment.* Regional Pay System. In January 1977 new instructions for improved batch control procedures were issued to all regional pay offices through the Pay Policies and Procedures Manual. At the same time, instructions were issued to departments through the Personnel - Pay Input Manual.

Central Pay System. Some improvement in control in the Central Pay System has been obtained through the introduction of better batch-control procedures and the potential for error has diminished through the reduction of manual intervention in the transcription of input data. While the potential for problems in control over departmental input exists, conversion of the Central Pay System to the Regional Pay System will begin in six months. In view of Central Pay's relatively short life expectancy it would not be supportable on a cost-benefit basis to divert scarce resources from Regional Pay enhancement projects already underway to implement major changes in Central Pay.

**6.41 Authorization procedures.** There is a great deal of confusion among the departments as to whether pay-input documents require certification under Section 27 of the Financial Administration Act that the related work has been performed and, if so, who should be responsible for the certification. In fact, in most departments reviewed, input documents used to initiate payments did not bear that certification even though it is required on the forms themselves. We also noted instances where pay and benefit officers gave the certification for both Section 26, that payment is an authorized charge against an appropriation, and Section 27. In some cases, the same officer signed under both Sections.

*Recommendation.* The Financial Administration Act and its regulations should be clearly interpreted as they relate to pay administration. That interpretation should be enforced within every department.

*Treasury Board Secretariat Comment.* The Treasury Board Circular No. 1977-37 dated July 28, 1977, interprets the Financial Administration Act and its regulations as they relate to pay administration. This Circular is a follow-up to the Pay Study Task Force Report which was issued in November 1976. The requirements of the Circular will be enforced within departments.

**6.42 Verification procedures.** The Department of Supply and Services is responsible for validating signatures on the input documents for payment authority under Section 26 of the Financial Administration Act and the departments are required to provide the Department of Supply and Services' pay offices with specimen signatures of personnel authorized to sign under Section 26.

Many of the departmental signature cards on file at the Department of Supply and Services do not contain sufficient information to allow the pay offices to verify authorizations; for example, limits of payment authority and types of payment authority are frequently missing. Furthermore, departments are not ensuring that signature cards are kept up to date, and the Department of Supply and Services is not being notified as soon as signatures become invalid.

*Recommendation.* Departments should provide the Department of Supply and Services with signature cards that are complete and accurate and the Department of Supply and Services should be informed as soon as a signing authorization is amended.

*Treasury Board Secretariat Comment.* The Treasury Board Secretariat concurs with the recommendation of the Auditor General. The Treasury Board Guide on Financial Administration sets out instructions on this subject for departments and agencies.

A Treasury Board Circular letter which is soon to be issued sets forth the requirement to use a standard specimen signature card and a standard method for communicating restrictions to the Department of Supply and Services. The Circular letter also reiterates the requirement that cards are withdrawn and re-issued when departmental reorganizations or policy changes alter any of the data on the cards and are withdrawn as soon as the incumbent gives up the duties of his position.

**6.43 Computer processing controls.** Within the computer systems, controls are not adequate to ensure the complete and accurate processing of pay transactions. Furthermore, there are no controls to ensure the integrity of pay transactions and of the data files which are updated by these transactions during the computer processing cycle. These deficiencies have been recognized by the Department of Supply and Services and plans are currently underway to rectify them in the Regional Pay System. However, no such plans exist for the Central Pay System.

*Recommendation.* The implementation of procedures to provide more effective controls over the computer processing of transactions for both Regional and Central Pay Systems should be given high priority.

*Department of Supply and Services Comment.* The situation has been rectified in the Regional Pay System by the introduction of new procedures through the Pay Policies and Procedures Manual to provide more effective controls over the computer processing of transactions. Prior to implementation, these procedures were reviewed by the

Office of the Auditor General. In view of Central Pay's relatively short life expectancy, it would not be supportable on a cost-benefit basis to divert scarce resources from Regional Pay enhancement projects already underway to implement major changes in Central Pay.

**6.44 Review and reconciliation of output by user departments.** Controls over payrolls at the departmental level are deficient. Pay cheques and reports produced by the Department of Supply and Services are often insufficiently reviewed and reconciled by the appropriate financial officers and department responsibility centre managers, or both. In particular:

- Paylists are not being reconciled with pay input documents to ensure that all changes have been correctly acted on.
- Pay changes initiated by the Department of Supply and Services are not being reviewed by the departments for accuracy.
- Departmental pay and benefits officers are responsible for initiating pay input documents. In a number of instances, contrary to the Treasury Board guidelines departmental pay cheques are being sent to these officers for verification and distribution, rather than to financial officers.
- Salary distribution reports are not always reviewed by responsibility centre managers to verify that charges are accurate.

*Recommendation.* Procedures should be enforced to ensure that financial officers and responsibility centre managers are performing their duties with respect to review, reconciliation and distribution of pay cheques and related reports.

*Treasury Board Secretariat Comment.* Treasury Board Circular No. 1975-29 informed Departments and Agencies of an addition to the Guide on Financial Administration setting forth the policy of the Treasury Board concerning the control of Receiver General Cheques for Salaries and Wages.

During the period March 1975 to November 1975, a number of departmental reports for the control of cheques were evaluated. As a result of those evaluations further guidance was provided to all Departments through a letter and a list of the major omissions from those reports. Departments were instructed to incorporate all of those points in their procedures.

## **UNEMPLOYMENT INSURANCE COMMISSION – Benefit and Overpayment System**

**6.45** We reviewed the major computer-based financial system within the Commission, the Benefit and Overpayment System, during the period from January to April 1977.

The Benefit and Overpayment System comprises the Benefit Pay, Overpayment and Record of Employment Systems, which together control the initiation and payment of about \$3,000 million per annum in benefit warrants to approved claimants from Regional Pay Centres across Canada.

The Benefit and Overpayment System was reviewed from the initial application for benefits by claimants at District Offices through to the issuance of warrants by Regional Pay Centres. The manual procedures at the District Offices were reviewed in Montreal, Thunder Bay and Ottawa. We reviewed the functions carried out by the related electronic data processing systems in the Quebec and Ontario Regional Pay Centres and at Systems and National Services in Ottawa.

The work performed included:

- an evaluation of the financial and accounting controls within the Benefit and Overpayment System;
- a review of compensating benefit control programs that are applied outside the Benefit and Overpayment System on a national, regional or test basis; and
- an assessment of the physical safeguards which provide continual computing capability and security for data, systems and equipment.

**6.46 Summary of observations.** Within the Benefit and Overpayment System, taken as a whole, there are two areas where control weaknesses expose the Commission to the payment of benefits through error or fraud.

- The overall system, when viewed as a financial system, does not contain control procedures sufficient for ensuring that claims for initial and continuing benefits are adequately validated before or after the issue of the warrant. The exposure of the Commission would appear to be greater with respect to continuing payments than with initial payments.
- There are also weaknesses in the control and balancing of data throughout the entire system that could allow unauthorized transactions to be entered or cause valid transactions to be misplaced, without being detected.

The Commission operates a number of detective control programs designed to identify instances of overpayment; however, the nature of these programs and



the manner in which they are applied provide no assurance that they would detect an acceptable proportion of actual overpayments.

Since the above control deficiencies are inherent in the design and operation of the system, they may reflect the emphasis placed by the Commission on the operational nature of the benefit pay system to meet the demand for social service. However, a financial system of the magnitude of the Benefit and Overpayment System requires a more appropriate involvement of financial personnel in the design and in the ongoing operations.

The Commission has taken adequate measures to backup the Regional Pay Centres in the event of a Regional Pay Centre failure in the cross-Canada network.

Following are the key observations and recommendations arising from our review.

**6.47 Validation of initial and continuing claims data.** The design and operation of the Benefit and Overpayment System requires claimants to submit data for initial eligibility directly to Agents at the District Offices, and to notify the Commission of their continuing entitlement to benefits by submitting bi-weekly Claimant's Reports, usually by mail, to the Regional Pay Centres or to the District Offices.

A major weakness in financial control exists because the system lacks adequate control procedures to verify the relevant information independently and to ensure that the claims processed are properly validated before or after the warrants are issued. This weakness in control could lead to the occurrence of overpayments, erroneous payments or benefits obtained through fraud.

In the current system the process for assessing the initial and continued eligibility of claimants relies extensively on the Record of Employment document. It provides a basis for verifying certain key information obtained in the initial claims process and for monitoring the continuing eligibility of claimants independently. The Record of Employment System is designed to accomplish this control by providing the Benefit and Overpayment System with independent verification from employers of the work status and other key data on claimants. The Record of Employment System is therefore a cornerstone in the verification and control of the initial and continuing eligibility of claimants to receive benefits.

The present Record of Employment System is deficient since:

- the controls governing the distribution of Record of Employment source documents do not ensure that documents are distributed only to authorized employers;
- controls are not adequate to ensure that Record of Employment source documents originating from the employers are submitted to the Commission completely and accurately;



- controls are not adequate to ensure that the claimants' copies of the Record of Employment documents originating from District Offices are submitted to the Regional Pay Centres. This results in a substantial number not being processed by the computer system;
- current procedures do not ensure that both employee and employer copies of the Record of Employment document are processed and compared by the computer system; and
- controls do not exist to ensure that the Commission properly follows up potential irregularities or overpayments signalled by rejected or unmatched Record of Employment documents.

Some of the controls over information on the status of potential claimants cannot be completely effective due to factors beyond the control of the Commission. Certain data needed in the verification process are dependent upon timely and accurate information being submitted by employers. As noted above, the Commission has not been able to exercise effective controls over this aspect of the system. Thus, all of these deficiencies taken together have reduced the effectiveness of this control system below an acceptable level.

The Commission has responded to this exposure by implementing a number of compensating control programs designed to detect selected situations where irregular payments may have been made. These programs have identified instances of erroneous payments and overpayments but their effectiveness as detective controls to supplement the preventive controls in the system have not been assessed in statistical terms against the system as a whole. Overall, the process by which specific control programs are instituted does not ensure that the detective process is carried out in the time and manner needed to initiate effective action on identified overpayments. For example, some of these are developed and implemented on a regional basis and can vary in nature and extent of penetration against the total population of overpayments which may exist. Given the nature of these deficiencies, improper benefit payments may not be prevented or detected by the current level of controls in the system.

*Recommendation.* In the short term, the control procedures covering the operation of the present Record of Employment System should be strengthened in the areas noted above and additional procedures should be developed to control input and processing of Record of Employment documents.

*Recommendation.* In the long term, the Commission should expedite its studies to evaluate the feasibility of using other systems or additional sources of information, such as premium collection data, for the verification of claims eligibility. The results of these studies should be used by a project group consisting of personnel with systems, financial control and Unemployment Insurance Commission operations expertise to design and implement a more effective control system.

**6.48 Control of documents and input data.** Control is deficient over data moving between the manual portion of the system represented by District Offices and computer processing at the Regional Pay Centres. Source documents are subject to numerous reviews and approvals at initiation in the District Offices and the data received and processed at the Regional Pay Centres are balanced after they are in the computer system; but the control and balancing of input data throughout the system as a whole are weak. The documents submitted by District Offices are subject to some basic input controls but the continuity of these controls is broken when the data are received at the Regional Pay Centres. Effective control is lost even though new controls are established after the initial data processing steps because the controls are set without reference to previous control totals. No use is made of batch controls, document counts or control totals on key fields that would provide a basis for properly controlling and balancing all input from the District Offices to computer processing. In brief, the system lacks an effective document control system to safeguard against the entry of unauthorized documents and the inadvertent loss of authorized documents before processing by the Regional Pay Centres. Following are the most significant control weaknesses identified:

- control procedures over access to the claims registers in District Offices are not sufficient to ensure that only authorized claims are recorded;
- input data moving between District Offices and Regional Pay Centres are not subjected to effective batch or other controls that are used by the system or reported back to the District Offices to ensure that only authorized transactions are processed by the system;
- controls are inadequate for ensuring that all errors and rejections from the system are corrected and resubmitted;
- access to the key input forms in the District Offices is not adequately controlled; and
- control procedures do not ensure that reported exceptions and irregularities in the document control system are properly followed up by District Office staff.

Taken together, these deficiencies in control could allow unauthorized transactions to be entered into the system or valid transactions to be lost, resulting in the payment of benefits through error or fraud.

*Recommendation.* The new document control system currently being developed by the Commission should include procedures to enable the District Offices to ensure that all and only those transactions which have been authorized and approved by insurance Agents are processed by the Regional Pay Centres.

**6.49 Control over regional programming staff.** Each Region has programming capability which is independent of Systems and National Services. We

appreciate the need to provide certain regional on-site systems and programming skills to meet the immediate and sometimes different information requirements in the Regions. We are concerned, however, that the functional independence of these groups from a National Systems management function and related standards could lead to the following problems:

- sub-standard documentation of systems and programming in relation to the national standard;
- regional systems development activities that accidentally damage or alter major files and programs; and
- loss of control over changes to nationally developed programs.

*Recommendation.* The Commission should bring all programming in the Regions under the functional control of Systems and National Services.

**6.50** The Unemployment Insurance Commission provided the following summary comments in response to the above observations and recommendations on its Benefit and Overpayment System.

*Summary Comments by the Unemployment Insurance Commission.* The administration of the unemployment insurance program in Canada requires a balance between service provided to clientele and control over the expenditure of program funds. Both of these activities make demands on limited resources. Management of the program therefore requires that the allocation of resources be such as to produce an acceptable balance between the two.

The service aspects of the administration require that decisions on both initial claims and bi-weekly reports be made quickly. Delays in these decisions delay the payment of money to individuals, give rise to many enquiries and generally lead to loss of effectiveness and efficiency. Insurance agents in District Offices make initial and revised decisions on claims; pay coders in Regional Payment Centres make decisions on the bi-weekly reports which lead directly to payment.

At the same time, however, these two responsibility centres perform important roles in the control over benefits paid. Agents are at first responsible for checking the veracity of a claim for benefits and then for determining that the claimant meets the initial and continuing entitlement conditions that lead to payment. Pay coders are responsible for auditing bi-weekly reports to determine the amount of benefit that will be paid for any benefit period and for advising insurance agents of any condition which would affect eligibility.

Benefit control activities provide for the more formalistic aspects of program control. The purpose of this function is to protect the Unemployment Insurance Account against improper withdrawal of benefits and to ensure that claimants and employers observe the law.



The basic control measure against internal fraud is based on separation of duties. The document control system, designed to lead to the detection of fraudulently inserted documents without slowing down the payment process, as developed by the Atlantic and Quebec regions is now being evaluated. The best features of the two systems, as well as of the existing system, will be combined into a system suitable for national implementation. A control listing of pay transactions processed by the computer and returned to the District Office in the form of a microfilm pay list provides the facility for the tracing of the origin and disposition of transactions. The complexity of the computer system with its many edit and control features provides further protection. Most importantly, extensive subsequent investigations form the protection against external fraud and abuse, and are also the fundamental line of defence against internal fraud. We are in agreement that improvements can be made in program control without unduly affecting program delivery. Current control developments include both the application of increased resources and the betterment of existing control mechanisms.

The Commission is aware that problems exist with the Record of Employment system. We have taken action and are planning to correct this situation in the following areas:

- Distribution Control
- Accuracy of Employer Information
- Processing of Claimants' Records of Employment
- Comparison of Employer and Claimant Record of Employment Copies
- Follow-up of Unmatched Records of Employment
- Insurability and Premium Collection

The control program initiatives listed above in conjunction with improved claims adjudication techniques based on increased person-to-person contact with claimants will much improve the ability to prevent and detect improper withdrawals from the program.

It is also intended to repeat each year the statistical analysis carried out during the Auditor General's study. This mechanism will provide for an annual assessment of possible levels of program abuse and enable an evaluation of effectiveness of control activities.

Control over Regional Programming Staff. Existing National Systems programming and documentation standards are also applicable to regional systems and programming staff. In order to ensure adherence to this standard and provide control with a view to reducing the chance of accidental contamination or damage to important files and programs, the regional systems and programming staff are now subject to functional direction by Systems and National Services. This will include reactivation of the Regional Systems Review Committee, provision of training and periodic compliance reviews.





## FINANCIAL MANAGEMENT AND CONTROL STUDY



# FINANCIAL MANAGEMENT AND CONTROL STUDY

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# *Financial Management and Control Study*

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**7**

**CURRENT STUDIES**

**Scope of Study**

**7.1** In May 1974, the Audit Office initiated a government-wide study to evaluate the adequacy of financial management and control in the departments, agencies and Crown corporations it audits. The results of the study formed the basis of 34 main recommendations on departments and agencies reported in 1975 and 18 main recommendations on Crown corporations reported in 1976. The current status of the implementation of these recommendations is presented in the following two parts of this Report.

**7.2** The current year's studies, which covered the remaining entities named in the original terms of reference, included seven departments and agencies, two Crown corporations, one corporation not scheduled in the Financial Administration Act and the Governments of the Yukon and Northwest Territories, including their agencies and Crown corporations. In addition, financial management and controls were examined in a further eight departments and agencies through extensions of our regular audit work.

**7.3** The 1976-77 reviews conclude the initial round of studies of financial management and control practices begun in 1974. Over the last three years 82 individual reports aggregating over 3,000 pages have been issued on detailed studies conducted in 50 departments and agencies, 28 Crown corporations, two corporations not scheduled in the Financial Administration Act and the two territorial governments.

**7.4** As in the previous two years, the current studies were directed to an examination of:

- (a) the statutes and centrally-controlled regulations, policies, directives and guidelines relevant to financial management and control, and the extent of compliance therewith;
- (b) financial systems and procedures including budgetary controls, accounting for revenues, expenditures, assets, liabilities and commitments, pricing and costing systems, and financial reporting systems;
- (c) the integration of accounting processes and systems with central systems;
- (d) the extent to which the financial systems and procedures are monitored and audited by internal and operational audit groups;

- (e) the type, accuracy, timeliness, purpose and use of financial information and reports currently prepared; and
- (f) the duties, responsibilities and functions of financial and accounting managers and staff with reference to the system of financial and accounting control, and to the relationships of their functions with central financial and accounting agencies.

**7.5** Appendix D of this Report provides details of the observations and recommendations included in the individual reports issued to each deputy head or chief executive, together with their responses. The observations and recommendations resulting from extending the regular audit work were not of sufficient significance to warrant the attention of Parliament, and accordingly are not included; these have been reported in normal management letters to the deputy heads concerned. The results of the studies of the two territorial governments have been reported separately to the territorial councils. As with previous studies, the actions taken on our recommendations will be followed up to determine that they satisfactorily remedy the problems we have identified.

## **Findings**

The following paragraphs outline the significant issues which resulted in observations in a number of reports issued in the current year.

**7.6 Financial leadership.** With a few exceptions, there was a lack of strong and effective financial direction in the organizations we studied. This lack of direction was attributable to:

- the failure to clearly and appropriately define and communicate the role, responsibilities and authority of the senior financial officer;
- the absence of a direct reporting relationship between this officer and his deputy head;
- the appointment of a senior financial officer lacking appropriate qualifications and adequate experience; and
- the assignment to this officer of time-consuming non-financial responsibilities.

In our opinion, the lack of central direction was a primary cause of many of the identified problems.

The lack of formal training programs for both financial officers and program officers performing financial duties was another cause of the deficiencies that exist and for the lack of initiative in undertaking suitable corrective action.

**7.7 Financial manuals.** The majority of the entities studied this year have prepared or have begun to prepare manuals to communicate their financial policies and procedures. This is encouraging but the quality of the communication is less than satisfactory because many of the manuals are not complete or require amendments.

**7.8 Internal control.** We found many examples of improper segregation of financial responsibilities and accounting duties that negated the fundamental principle of internal check that responsibilities should be allocated so that one staff member or one element of a system maintains an effective, independent control on the integrity and accuracy of another, without unnecessary duplication of effort. For example, systems of most of those entities which collect revenue were not designed to include adequate internal checks and thus are not effective in ensuring that all revenues are accounted for, billed and collected. Payroll expenditures in most entities are not effectively controlled since one person is often responsible for initiating the documents that give rise to payroll payments and for distributing the resulting payroll cheques, thus increasing the possibility of irregularities and errors. Those small entities that could not segregate financial duties properly have not always compensated by more extensive supervisory controls.

**7.9 Budgetary control and financial reporting.** In many of the organizations studied, budgetary control and financial reporting systems were found to be less than satisfactory. Emphasis in budget preparation was directed towards obtaining more resources rather than the equally important task of establishing the explicit financial plans necessary to control expenditures in relation to operations. Many activities were not periodically reviewed and assessed to determine their continuing validity and resource requirements. As a consequence, although budgetary control systems satisfy appropriation and allotment control requirements, they generally do not control costs effectively in relation to operations performed. Financial reporting systems do not produce financial information that is sufficiently accurate, concise and timely for management to exercise effective budgetary control.

**7.10 Internal audit.** Many organizations reviewed do not undertake effective internal financial audits. A few of the entities studied have no internal audit capability. In others, internal auditing is not effective because of poor auditing methods, limited scope, lack of direction or inappropriate reporting relationships.

## **Summary Comments**

**7.11** The current year's studies indicate a number of significant deficiencies in financial management and control, similar to those disclosed in previous years. Considering the similarity of the financial functions of most departments and agencies, it seems reasonable to have expected that the senior financial officers of those studied this year would have: (1) reviewed the observations which were included in my 1975 Report, and the 1976 and 1977 Proceedings of the Public Accounts Committee relating to the results of the Financial Management and

## *Financial Management and Control Study*

Control Study; (2) made a comparison of the findings and recommendations and the actions taken with the financial management and control practices within their own organizations; and (3) initiated action to correct deficiencies before we began our current studies. Unfortunately, there has been little evidence of such initiative on the part of senior financial administrators in most of the departments and agencies covered this year.



**REVIEW OF ACTIONS ON REPORTED DEFICIENCIES  
IN FINANCIAL MANAGEMENT AND CONTROL PRACTICES  
OF DEPARTMENTS AND AGENCIES**

**Introduction**

**8.1** My 1975 Report contained the findings of the first year of the Financial Management and Control Study. Studies that year were directed to departments and agencies. Findings were divided into two types - those applying to individual departments and agencies and those of government-wide significance. Part 4 of the 1976 Report commented on the actions taken or planned by central agencies and by individual departments and agencies to the end of August 1976 in response to the deficiencies disclosed by the Study.

**8.2** The purpose of this Part is to comment on the corrective actions taken or planned to the end of August 1977 in response to the 34 main recommendations of government-wide significance we made in 1975 (see italicized paragraphs in this Part). Management letters to deputy heads will comment on the corrective actions taken on the findings and recommendations specific to each department and agency. In addition, the Public Accounts Committee requested and received from selected departments and agencies updated progress reports on these corrective actions. Because of their large number, this Part refers only in general terms to departmental recommendations.

**8.3** The Minister of Finance tabled my 1975 Report in the House of Commons in December 1975. In June 1976 the Treasury Board Secretariat provided the Chairman of the Public Accounts Committee with responses to our main recommendations and the Committee, in its Sixth Report to the House, endorsed all 34 recommendations, noting that the Treasury Board disagreed with only two.

**Status of Actions Taken**

**8.4** Although it is not yet possible to assure Parliament that the actions taken are sufficient to remedy the problems we identified in 1975, it is evident that there is a significantly increased awareness of and agreement on the need to improve financial management and control in the Government. The attention and leadership the President of the Treasury Board, the Honourable Robert Andras, and the Standing Committee on Public Accounts, under the chairmanship of Mr. Lloyd Crouse in 1975-76 and Mr. Allan Lawrence in 1976-77, have devoted to this objective have been particularly gratifying. Successive Secretaries of the Treasury Board, Mr. Gordon F. Osbaldeston to December 1976 and Dr. Maurice LeClair since then, also have devoted close personal attention to these matters.

However, in terms of significant visible changes to rectify major internal control weaknesses, progress has not been spectacular. And, given the detailed information already developed and made available through the Financial Management and Control Study, perhaps more effort has been applied to further studies and the formation of interdepartmental committees and less to prompt actions to correct identified major deficiencies than might seem warranted. We think many deficiencies, particularly those in individual departments and agencies, identified as a result of our studies could have been resolved quickly without waiting for the completion of studies and the development of standards.

The Government has announced its intent to appoint a Comptroller General of Canada and efforts are under way to recruit a suitably qualified individual for this important position. It is hoped that the process of developing and implementing improvements in financial management and control will accelerate under the leadership of the Comptroller General. This update of the implementation status of the 1975 recommendations on financial management and control outlines a portion of the challenge facing the Comptroller General. Even with the Comptroller General's appointment, however, greater effort will be required from departmental financial officers, who in turn will need increased support from their deputy heads.

**8.5** The following paragraphs set out our 1975 recommendations and comment on the actions taken on each.

### **Estimates and Public Accounts**

**8.6** *Estimates. A comprehensive study of the form of the Estimates, and the information submitted by each department and agency in support of appropriation requests, is required to determine changes needed to achieve better disclosure, as well as better control by Parliament and by the Government of departmental spending in relation to the appropriations granted. (1975 Report - paragraph 10.6)*

This recommendation for a study of the Estimates was strongly supported by the members of the Public Accounts Committee who on April 1, 1976, agreed that the Treasury Board should

prepare a paper on a two-part basis - the first part identifying items that could be introduced at an early date without undue difficulty and the second part introducing changes of a more comprehensive and complex nature.

In its Sixth Report to the House of Commons (June 30, 1976), the Committee reported that the Treasury Board would undertake a comprehensive study of the form of the Estimates and also endorsed the preparation of a booklet by the Treasury Board, the Auditor General and the Research Officer of the Committee to assist parliamentarians in understanding the process and form of the Estimates.

On October 5, 1977, the Treasury Board Secretariat provided us with a draft booklet - A Concise Guide to the Estimates and the Public Accounts of Canada - for review and comment. The Secretariat has indicated that the booklet is designed

to provide an understanding of the system of reporting the financial operations of the Government of Canada prospective in the Estimates and retrospective in the Public Accounts

and subsequently is expected

to serve as the basis from which members (of Parliament), in consultation with the Treasury Board and the Auditor General, can agree on required improvements.

The booklet therefore represents a first step toward the comprehensive study of the form of the Estimates. However, it does not analyze the strengths and shortcomings of the present Estimates or suggest opportunities for improvement, except in those areas dealt with in the Study of the Accounts of Canada.

Our recommendation envisaged a study having two principal purposes: to achieve better disclosure of the proposed uses of funds requested; and to provide a better basis for parliamentary and governmental control of departmental spending. The action taken so far by the Treasury Board Secretariat does not contribute significantly to either purpose.

However we have been informed that, as recommended in the Study of the Accounts of Canada, the Estimates for 1977-78 include estimates for all non-budgetary loans, investments and advances. Also, no new non-lapsing appropriations are included and existing multi-year votes and instances of net voting of revenues are being phased out as recommended. These changes respond positively to specific recommendations made in previous Annual Reports by this Office.

Concerning the form of the Estimates and recognizing that parliamentarians will be better able to judge proposals for improvements in their form if alternatives are provided, I have initiated a demonstration project using, wherever possible, information that is now available within departments. When the results are available it is hoped that they will be helpful in expediting improvements in the form of the Estimates.

We urge that this important matter be given high priority by the Secretary of the Treasury Board and the Comptroller General. My Office stands ready to provide all data that we have available to support and illustrate the numerous detailed recommendations that were tabled with the Public Accounts Committee during its hearings on the form of the Estimates in March and April 1976.

**8.7 The Public Accounts.** *A single central agency should be responsible for the form of the Estimates and Public Accounts so that a more adequate and consistent accounting can be rendered to Parliament. (1975 Report - paragraph 10.7)*

The Treasury Board Secretariat has advised my Office that proposed amendments to the Financial Administration Act would establish the Treasury Board as the "single central agency responsible for the form of the Estimates and Public Accounts".

The proposed amendments to the Financial Administration Act also include provisions to implement the Study of the Accounts of Canada and to make other improvements. Progress has been delayed due to the need for additional amendments concerning Crown corporations.

A comment on the adequacy of the action taken by the Secretariat is not possible until the suggested changes to the Financial Administration Act are available and the responsibilities of the Comptroller General are fully delineated.

### **Allocation of Resources**

**8.8**        **Communication of government objectives.** *There is a need for governmental and departmental objectives, and program priorities, detailed enough to provide effective guidance to be communicated formally and on a timely basis to managers responsible for the various aspects of financial planning. (1975 Report - paragraph 10.9)*

During the last two years, directors of the Program Branch of the Treasury Board Secretariat have been instructed to meet each deputy head early in the period when Program Forecasts are prepared to discuss priorities, the expected degree of restraint on expenditures, special information requirements, etc.

This action by the Treasury Board Secretariat is useful, but it does not meet fully the intent of our recommendation. To ensure the co-ordination of the many persons involved in resource allocation decisions, there remains a need for more formal communication which clearly documents the Government's priorities and objectives.

**8.9**        **Assignment of responsibility for Program Forecasts.** *Senior management of departments and agencies should prepare Program Forecasts centrally with other levels of management providing information for planning, primarily through continuous dialogue with headquarters. (1975 Report - paragraph 10.10)*

The Treasury Board Secretariat states that this recommendation is consistent with existing Treasury Board policy. The policy, according to the Secretariat, continues to be enforced at every opportunity.

**8.10**       **Content of Program Forecast submissions.** *Program Forecast information requirements should be studied to make certain that they contain only essential detail and specify requirements which recognize the fundamentally different natures of the various departments and agencies and the diversified programs they administer. (1975 Report - paragraph 10.11)*



The Treasury Board Secretariat states that it is Treasury Board policy to study Program Forecast information requirements continually with these goals in mind.

**8.11 Evaluation of continuing programs.** *All programs should be reviewed in detail on a cyclical basis. Reviews should be conducted by departments, with appropriate central agency participation to provide an adequate basis for them to perform their resource allocating and budget monitoring responsibilities. (1975 Report - paragraph 10.12)*

The Treasury Board Secretariat agrees that reviews should be carried out, but has no specific plan for them. A number of programs have been reviewed over the last several years, primarily when it was necessary to re-allocate resources to other programs.

Essentially, the Secretariat takes the position that it is conducting program reviews of all submissions, but it concentrates its efforts where it believes significant benefits can be achieved. Because there is no specific plan to ensure that all programs are reviewed periodically, there is little assurance that low profile programs and administration and central service programs are adequately examined. Furthermore, effort is likely to be concentrated on those programs that have attracted public attention because of the failure to examine them effectively in earlier years.

**8.12 Review of personnel requirements.** *Departmental personnel divisions should participate in the review of Program Forecasts. In addition, the Personnel Policy Branch of the Treasury Board Secretariat and the Public Service Commission should be consulted on the personnel implications of Program Forecasts before Treasury Board approval of budget levels. (1975 Report - paragraph 10.13)*

The Treasury Board Secretariat has agreed with this recommendation and has proposed policies and systems on human resource planning.

**8.13 Quality of information.** *Action needs to be taken to improve the quality of the data contained in Program Forecasts and Estimates submissions by:*

- *reassessing the suitability of the present structure of departmental programs and activities;*
- *promoting the use of procedures to extend the capability of financial systems to measure performance;*
- *reviewing in greater detail data submitted by departments;*
- *following-up on actual expenditures as a means of assessing the quality of budgetary data;*



- *establishing centrally the basis of amounts included to cover inflation;*
- *reviewing the effect of changes in inventory levels; and*
- *following-up on future-year projections included in Program Forecasts. (1975 Report - paragraph 10.14)*

A review of the responses and actions reported by the Treasury Board Secretariat makes it evident that the Secretariat does not share my Office's perception of the problem. The Secretariat's position is that present data are adequate for making resource allocation decisions. We still believe that there is a need to take the action recommended because, in our opinion, the data do not provide an adequate basis for the Government to control effectively the execution of the approved plans and thereby ensure that funds are used for the purposes for which they were provided. As a consequence, parliamentary control of the public purse is significantly weaker than it should be.

**8.14**      **Communication of procedures and decisions.** *A comprehensive resource allocation manual should be prepared containing a consolidated, updated version of appropriate sections of Treasury Board manuals, guides and circulars which deal with the resource allocation process. These should be supplemented by annual letters to each department suggesting improvements in the quality, content and presentation of the past year's submissions. Departments should reply formally stating plans for improvement. (1975 Report - paragraph 10.15)*

Communications currently provided by the Treasury Board Secretariat consist of the Planning, Programming and Budgeting Guide, the Program Forecast and Estimates Manual, the Guide on Financial Administration and circulars on specific topics. It is the position of the Secretariat that communicating through circular letters provides flexibility and enables the Secretariat to keep current. The present approach, however, leads to misunderstandings regarding the resource allocation process within user departments and agencies. Use of a comprehensive resource allocation manual, supplemented by annual letters to each department, could reduce these misunderstandings.

**8.15**      **Program analysts.** *The Treasury Board Secretariat should study the reasons for the high rate of turnover of program analysts and take steps to remedy the problem. (1975 Report - paragraph 10.16)*

The high rate of turnover of program analysts results from the deliberate staffing policy of the Secretariat, which it considers beneficial and intends to retain. The policy is to recruit personnel with good qualifications and experience and demonstrated career potential from various areas of the Public Service. Operating departments seek to recruit Treasury Board analysts because of these same factors and because of the experience they gain while in the Secretariat, making high turnover inevitable.

**8.16**      **Documentation of procedures.** *The Program Branch ought to develop standard internal checklists, questionnaires and methods for documentation of decisions. (1975 Report - paragraph 10.17)*

The planned high rate of turnover of program analysts makes even more important the use of standard internal checklists, questionnaires and methods for documentation of decisions.

The Program Branch of the Treasury Board Secretariat has developed a training guide for new program analysts. Only one copy of the guide exists. The Branch appears to take the position that, because much of the analysis performed by program analysts is creative, standard approaches should be kept to a minimum.

Although the need for creativity is valid, it does not seem logical that individuals who are relatively inexperienced as program analysts, regardless of their previous experience or demonstrated abilities in other functions, should be assessing program submissions without the assistance of appropriately detailed lists of questions to be asked and items to be scrutinized. These would not in any way restrict the scope for innovative analysis, but would merely ensure consistency and reduce the danger that items of significance may be overlooked.

**8.17**     *Training in procedures. An intensive training course covering all appropriate aspects of the resource allocation process should be developed and made compulsory for all officials primarily involved in the planning and budgeting functions in each department and agency. (1975 Report - paragraph 10.18)*

The Treasury Board Secretariat, in conjunction with the Public Service Commission, has developed a three-week Government Expenditure Management (G.E.M.) Course for senior public servants. A pilot course in 1976-77 had 20 candidates including program managers, policy planning officers and finance officers who had been selected from a list of deputy head nominees. The curriculum covered a broad range of resource allocation and financial control topics and exercises. A revised version of the course is to be presented in 1977-78. As a result of the favourable reception accorded this course, an abbreviated version was developed for deputy heads. These courses represent a positive step toward making senior managers conscious of their responsibilities in the resource allocation process. However, the recommendation was primarily directed towards training those lower level officials who are responsible for so much of the process. It is important that the Treasury Board Secretariat's declared intention to use the curriculum and course material in training courses for other levels of the Public Service be carried out.

**8.18**     *Non-tax revenues. Departments should be required to assess services to the public annually within guidelines given to them by Treasury Board and to submit recommendations for continuing revenue policies or for increasing or reducing fees charged because of changes in the services offered or in the cost of providing them. Treasury Board should in turn be required to submit annual recommendations on revenue policies to the Governor in Council for consideration under the provisions of Section 13 of the Financial Administration Act. (1975 Report - paragraph 10.19)*

The Treasury Board Secretariat agrees with this recommendation and intends to give greater emphasis to the subject of revenue policies in the Guide on Financial Administration. The annual Program Forecast exercise requires departments to review their services to the public and the charges for such services. However, investigations of departmental practices indicate that in a number of departments and agencies rates are not reviewed annually, and departmental financial manuals still do not include a statement of departmental policy on revenue recovery or explain when or how much to bill for goods or services.

### **Budgetary Control**

**8.19 Use of allotments.** *Treasury Board should give more consideration to establishing separate allotments where significant amounts of funds are provided for purposes that are discretionary and therefore controllable by management.* (1975 Report - paragraph 10.20)

Having explained its position to the Public Accounts Committee, the Treasury Board Secretariat has no plans to make greater use of allotment control. If there were an effective system of budgetary control, greater use of allotment controls probably would not be necessary. However, since present parliamentary votes are so large and general in nature, we believe that the Treasury Board Secretariat needs some measures to control major program components that are of a discretionary nature.

**8.20 Need for commitment accounting.** *Departments with appropriate systems of budgetary control and financial reporting should be required to record commitments only as necessary towards the end of the year.* (1975 Report - paragraph 10.21)

The Treasury Board Secretariat wishes to continue the recording of commitments as a supplement to a budgetary control system. My Office accepts this position, but a review of departmental action indicates that while commitment control is receiving priority, little is being done to develop appropriate budgetary control systems.

**8.21 Control through periodic financial reporting.** *Departmental budgetary control and reporting systems need as a minimum:*

- *properly defined cost components and cost information so managers can be held accountable for performance;*
- *detailed budgets by time period in accordance with the assignment of managerial responsibility;*
- *consistency between budgeting and accounting;*
- *timely preparation and distribution of periodic financial reports; and*



- *analysis of variances between planned and actual results.* (1975 Report - paragraph 10.22)

During the last 18 months the Financial Policy Evaluation Division of the Treasury Board Secretariat reviewed budgetary control and reporting in 17 departments and agencies. A number of these evaluations have been obtained from the departments and agencies concerned. It is evident from these that the Secretariat found problems similar to those we reported in 1975. The Financial Policy Evaluation Division is working with departments and agencies to develop implementation plans for improving the systems, and the Financial Policy Development Division has sponsored a study of the timeliness and accuracy of financial reporting which is described further in paragraph 8.25.

**8.22**      *Use of non-financial data. Performance indicators are needed as an integral part of departmental budgetary control and financial reporting systems in all areas that can be effectively measured.* (1975 Report - paragraph 10.23)

The Treasury Board Secretariat agrees with the need for performance indicators and a progress report on performance measurement was tabled in the House of Commons on November 17, 1976.

The effectiveness of a number of applications of performance measurement systems will be evaluated as a part of the Study of Procedures In Cost Effectiveness, recently initiated by my Office. The results will be reported in my 1978 Report.

**8.23**      *Central approval of systems. A central agency should approve and periodically reassess departmental budgetary control and financial reporting systems to ensure their adequacy for purposes of satisfying the needs of Parliament and of the Government, as well as of departments.* (1975 Report - paragraph 10.24)

The Financial Administration Branch of the Treasury Board Secretariat has set up a Financial Policy Development Division responsible for developing standards and approving departmental systems before implementation. Once they are established, the standards and their effect on departmental systems will be assessed.

**8.24**      *Central budgetary control. A monthly report, based on analysis of department budgets and expenditures and variances between them, should be prepared so that Treasury Board can take action to control overspending or to freeze excessive resources.* (1975 Report - paragraph 10.25)

Responses of the Treasury Board Secretariat to this recommendation show recognition only of the need for obtaining the information it requires for purposes of resource allocation, without recognition of responsibility for monitoring its own resource allocation decisions and departmental use of the resources appropriated. This contrasts with the recently announced government proposal to require quarterly reports from Crown corporations.

## **Accounting Systems**

**8.25**      **General accounting system of DSS.** *A study should be undertaken to determine the most appropriate method of achieving timely and accurate financial reports for departments and agencies. (1975 Report - paragraph 10.26)*

The rationale for this recommendation in my 1975 Report was that a number of departments and agencies were dissatisfied with the financial reporting services provided by the Department of Supply and Services. The 1975 Report also indicated that 70% of those departments and agencies surveyed had adopted or were in the process of developing separate reporting systems to meet all or a portion of their needs, even though this might lead to extensive duplication of effort and cost. It suggested that the extent of apparent departmental duplication, along with other factors, indicated that it might be preferable to introduce a greater degree of decentralization of accounting functions.

The Treasury Board Secretariat agrees with the need for such a study and it has been started by the Financial Administration Branch, in conjunction with the Information Systems Division of the Secretariat and the Department of Supply and Services.

Phase I of the study consisted of circulating a questionnaire to departmental senior full-time financial officers and responsibility centre managers. Its conclusions and recommendations were similar to the findings we reported in 1975.

Phase II of the study, which is nearing completion, involves developing policies, standards and guidelines for financial reporting. Phase III will undertake solutions to the problems identified in Phase I and is expected to be completed early in 1978. However, it is likely to be at least 1980 before all major findings can be implemented and even that date is dependent on significant resources being made available to the project.

Meanwhile, the Department of Supply and Services has taken several actions, such as upgrading input devices and improving distribution procedures, to improve timeliness of report distribution.

**8.26**      **Payroll system of DSS and controls over payrolls.** *A study should be undertaken to determine how departments could better prepare and control payroll documentation up to the point of submission to a central or regional pay office of the Department of Supply and Services, these offices being responsible only for cheque preparation and for the systems and procedures necessary to process the payroll, to make the required withholdings, and to provide essential information to central agencies. (1975 Report - paragraph 10.27)*

*Financial staff should be responsible for ensuring that there are controls within payroll systems just as in all other administrative systems giving rise to financial transactions. (1975 Report - paragraph 10.29)*



## *Financial Management and Control Study*

It appears that departmental financial controls over payroll have not improved significantly. In reviewing payroll systems during 1976-77, we noted instances where:

- the person preparing payroll input continued to receive pay cheques for distribution to employees;
- data on pay input documents were not routinely being verified either for clerical accuracy or for managerial authority;
- employees continued to be paid even though attendance or time reporting forms were not being submitted; and
- employees received annual salary increments without documented managerial approval.

Unfortunately, many departments seem to be waiting for the Treasury Board to develop and issue specific directives and guidelines on financial controls over their payroll systems rather than taking the initiative and eliminating weaknesses themselves.

In May 1975, the Treasury Board set up the Pay Study Task Force to perform a comprehensive study of the Government of Canada payroll system. As indicated in their November 1976 Phase III Report, consideration was given to specific observations from my 1975 Report and several financial controls were recommended. Missing from the Task Force Report, however, was a comprehensive description of the system of internal control required for a pay system and an explanation of how existing control weaknesses would be remedied.

Also of significance is the fact that many of these recommendations provide for controls that are of a detective rather than of a preventive nature. More positive controls should be recommended because the present payroll system requisitions cheques on a recurring payment basis and in advance of services being rendered. Positive controls are normal in other systems where these two conditions exist.

In late July 1977, the Treasury Board released a new policy circular on pay administration stating that:

- pay is primarily a departmental responsibility;
- pay must be administered within the constraints of policy and procedures will be simplified;
- the data processing aspects of pay administration will be handled by an upgraded DSS pay system more closely attuned to departmental needs; and
- departments must be prepared to accept the accountability which accompanies the delegation of responsibility and authority for pay administration.

This policy circular also identifies standards and defines the responsibilities of the Treasury Board, the Department of Supply and Services and user departments for the proposed system.

During the year, as part of the Computer and Information Systems Evaluation (CAISE) Study, my Office reviewed the financial and accounting controls over the Department of Supply and Services Central and Regional Pay Systems. Our findings are summarized in paragraphs 6.38 to 6.44 in Part 6 of this Report.

## **Financial Controls**

**8.27 Effectiveness of financial controls.** *In all financial systems, duties should be carefully segregated so that, without unnecessary duplication of effort, one staff member or one element of a system maintains an effective independent control upon the integrity and accuracy of another. In particular there should be an adequate segregation of spending authority from payment authority for all expenditure transactions and also of such duties as verifying accounts for payment, preparing documentation, requisitioning and distributing cheques, and receiving and depositing money. Control should be established as early as practicable and maintained through all stages of manual, mechanical and electronic processing. In particular:*

- *managers should exercise delegated authority only where they have the information to do so;*
- *controls on all significant data should be established at the originating level before processing, and be confirmed by the same level after processing;*
- *controls over expenditures should be established before spending and payment authorities are granted; and*
- *there should be clearly documented evidence of performance of all control functions and this evidence should be regularly reviewed by managers. (1975 Report - paragraph 10.28)*

*All revenues, accounts receivable and significant inventories should be under effective systems of control, generally an independent accounting control. (1975 Report - paragraph 10.30)*

During the last two years, many departments have effected significant improvements in separating spending authority from payment authority. With certain notable exceptions, particularly in the area of grants and contributions as reported in Part 12, departmental systems for delegating and documenting financial signing authorities are now in place. However, improvements can still be made in another basic aspect of internal control systems - the establishment of routines whereby information from, or the staff associated with, one element of a system maintains an effective independent control on the integrity and accuracy of another.

Follow-up reviews of the departments and agencies reported on in 1975 and 1976 indicate that deficiencies in many of these organizations make them overly dependent on the experience and integrity of the employees involved. Such deficiencies may contribute to judgmental errors based on inaccurate and incomplete information, and may provide opportunities for fraud.

**8.28 Responsibility for improving financial controls.** *Departmental systems should be reviewed and approved by a central agency to ensure that they comply with Treasury Board regulations and such other instructions as are required to ensure adequate control of expenditures, revenues and assets. (1975 Report - paragraph 10.31)*

A Financial Policy Development Division has been established within the Treasury Board Secretariat to develop standards for financial systems and to approve departmental systems before implementation.

This Division is involved in the study to determine the most appropriate method of achieving timely and accurate financial reports referred to in paragraph 8.25. However, it does not yet have resources adequate for reviewing and approving all new or existing departmental systems. It is in the process of carrying out this function for those major new departmental systems of which it is aware.

## **Internal Audit**

**8.29 Effectiveness of internal audit.** *The central agency of the government responsible for prescribing the standards, scope and coverage of departmental financial audits should give greater emphasis to monitoring departmental internal audits so as to encourage greater adherence to the standards. (1975 Report - paragraph 10.32).*

In continuing its effort to strengthen departmental internal audits, the Treasury Board Secretariat has determined that the area of greatest importance is the development of comprehensive standards for internal financial audits. A senior officer, the Chief of Internal Audit Standards and Evaluation, has been recruited. His responsibilities are:

- to develop and issue internal financial audit standards;
- to monitor the activities of internal financial audit staff to improve standards and effectiveness;
- to assess the adequacy and results of internal financial audits;
- to establish a leadership role in the area of internal financial audit;
- to establish an interdepartmental committee; and
- to provide advisory services.

An internal financial audit standards manual is expected in the near future. An exposure draft was recently circulated for comment to a number of organizations inside and outside government, including my Office. We shall continue to follow the development of the manual and, after it has been issued in final form, shall monitor departmental compliance with the new standards it contains.

Our findings and recommendations arising from an assessment by the CAISE Study of the capability of departmental internal audit groups to perform effective audits in a computerized environment are reported in paragraphs 5.11 to 5.14 of Part 5 of this Report.

My Office has a twofold interest in the auditing activities being conducted within the Federal Government. First, with our new formal mandate under the Auditor General Act to observe whether expenditures are made with due regard for economy and efficiency and whether satisfactory procedures are in place to evaluate program effectiveness - in short whether value is being obtained for money spent - it is incumbent on us to ascertain the nature, extent and effectiveness of the work being done not only by groups involved in internal financial audit but also by groups conducting "operational audits", "management audits" or "cost effectiveness audits". Second, the work performed by all these groups is a factor we must consider in determining the nature, timing, and extent of our own auditing procedures. Accordingly, I recently initiated a review for the purpose of assessing whether there is good "value for money" being derived in the whole area of auditing within the Federal Government, including my Office, and whether modifications can and should be made in the existing audit programs of my Office or elsewhere to eliminate duplicate, overlapping or redundant effort and corresponding costs.

## **Financial Staff**

**8.30** *Financial community in government. A comprehensive study of personnel systems related specifically to financial administrators should be undertaken to consider the advisability of establishing a professional government accounting group commensurate with the current and future needs of government for financial management and control. (1975 Report - paragraph 10.33)*

The Treasury Board Secretariat does not consider the establishment of a separate professional government accounting group advisable because it believes creation of such a group might further aggravate the shortage of financial administrators.

Nevertheless, an educational program does exist, which dates back several years and now leads to a "Government of Canada Financial Management Certificate". Financial staff trainees are encouraged to participate and approximately 700 of these were involved in the program last year. The course was set up in co-operation with the Society of Management Accountants and, to obtain a certificate, a candidate need complete successfully thirteen of the courses required by the Society. Although this exposes candidates to a



professional accounting organization, it would be unfortunate if the certificate were permitted to lessen the incentive to take the full training necessary to become a member of a professional body.

**8.31 Staffing the financial function.** *A comprehensive review is required to establish the need in government for financial administration personnel by type and level and to develop a program to alleviate the present shortage and excessive turnover.* (1975 Report - paragraph 10.34)

A shortage of financial personnel continues. To offset this shortage and fill positions within the Treasury Board Secretariat and in various departments, the Public Service Commission and the Financial Administration Branch of the Treasury Board Secretariat recently have undertaken a recruiting program for qualified financial officers from all sectors of the business community.

We have been informed by the Treasury Board Secretariat that consideration is being given to implementing a Financial Officer Development Program as a means of overcoming the shortage of qualified financial officers. This Program would include academic and on-the-job training similar to that provided in university co-operative plans and the establishment of training positions for both university graduates and financial support staff. The creation of this new Program would be a positive step towards meeting the need for trained financial staff in the Government.

A program also has been developed jointly by the Treasury Board Secretariat and the Public Service Commission to review all personnel aspects of financial administration in the Public Service. The objectives of this program, which is headed by a director in the Secretariat's Financial Administration Branch, are to:

- provide leadership and direction to the financial administration group;
- ensure that standards applying to selection and staffing attract qualified personnel;
- develop a system to identify training and development needs and ensure programs are developed to meet these needs; and
- provide career counseling services.

An interdepartmental advisory committee, with representatives from 10 departments, will provide advice and assistance. The effectiveness of this program cannot be assessed at this time since it is still in the development stages.

**8.32 Financial community leadership.** *Responsibility for assisting the Public Service Commission in matters relating to the training of staff in the financial area, overseeing their career development, and advising on their qualifications for advancement should be assigned to a central agency of the government having the knowledge needed to carry out this role of ensuring that departments are staffed by capable financial personnel.* (1975 Report - paragraph 10.35)



The Financial Administration Branch of the Treasury Board Secretariat has been assisting the Public Service Commission in the selection and placement of qualified financial officers, particularly at the senior level. Specifically, this has consisted of providing a representative on all selection boards for senior financial officers, senior full-time financial officers and other financial senior executives. In addition, the Public Service Commission frequently obtains information from the Treasury Board regarding candidates for certain other financial positions.

In April 1977 the Secretary of the Treasury Board and the Chairman of the Public Service Commission announced a continuing program to facilitate the development of staff involved in financial administration functions and to set out the responsibilities of departments and the Financial Administration Branch of the Treasury Board. During the last year, the Branch has played a leading role in the presentation of courses in financial management and in stimulating the activities of the Financial Management Institute. Also, the Branch has established a Senior Financial Management Council composed of selected senior financial officers. The Council's role is to help in providing adequate and effective financial management throughout the Government.

### **Responsibility for Financial Management and Control Within Departments**

**8.33**      **Departmental organizational arrangements.** *The senior departmental officer responsible for financial management and control should report directly to the deputy head and be a member of the departmental management committee. He should always have the training and experience to act as the deputy head's adviser on all aspects of financial management and control, and to provide the necessary leadership to all financial staff in the department. (1975 Report - paragraph 10.36)*

My 1975 Report described the manner in which departmental financial functions were organized and the variety of reporting relationships found across the Government for the senior departmental financial officer position. It was pointed out that, under certain of these organizational structures, financial management and control concerns could not be expressed adequately at meetings of senior management. In these circumstances, senior departmental management was not always advised fully on its financial responsibilities and on the financial implications of its decisions by the person in the organization best qualified in terms of training, experience and departmental responsibility to offer this advice. Furthermore, such situations had contributed to lowering the effectiveness of the financial staff in these departments.

Last year's Report noted that the Treasury Board Secretariat had accepted only that part of this recommendation already included in its own policy on financial administration, namely that each deputy head must designate a senior officer responsible for departmental systems of financial administration. I was pleased to note the following elaboration of this policy by the President of the Treasury Board in a House of Commons debate on December 9, 1976:

There are about 1,800 financial officers in the public service of Canada, and indeed the Treasury Board is very much in agreement with the Auditor General that it is not enough. Too many financial management and control operations are entrusted to clerical people and people whose qualifications are often insufficient. Many departments and agencies have not yet elevated their chief financial officer to the position that he or she must occupy in the management structure in order to maintain or upgrade standards of financial administration. . . . It is my opinion, and our endeavour in almost every case - on some very small boards it might be slightly different - that this person should report not through anybody else but directly, at least, to the deputy minister of the department, the chairman of a board or the president of a Crown corporation.

Responding to a question from the Leader of the Opposition, Mr. Andras went on to say that with respect to departments such persons generally would be at the assistant deputy minister level.

The majority of departments and agencies have designated, as senior financial officer, a senior administrative officer who reports directly to the deputy head. In many cases, this administrative officer not only represents the financial function, but also a number of other functions or services such as personnel, administration, information services, computer services, official languages, management services and internal audit. The diversified demands of these multiple functions make it difficult for this officer to devote adequate time and attention to the financial function. In addition, because most of these other functions tend to be of a service nature, there is a strong tendency to consider the financial role to be one of service only rather than of control also.

In other cases, departments and agencies have designated as senior financial officer a person engaged full-time in financial administration who reports not to the deputy head but to a senior administrative officer who is not a professionally qualified and experienced financial administrator. Such a reporting relationship does not recognize adequately the responsibilities of the designated senior financial officer position and can impede the communication of financial advice to the deputy head.

So that there can be no possibility of a misunderstanding in this important matter, we have strongly recommended on numerous occasions - and continue to recommend - that the senior financial officer, who must possess appropriate professional qualifications and adequate experience, report directly to the deputy head or equivalent. In large organizations, his financial administrative responsibilities are likely to - and should - occupy his full time. In smaller organizations, and sometimes under certain special circumstances, the senior financial officer may be required to discharge other responsibilities as well. When this is the case, it is important that these added responsibilities are not such as to detract from the effective exercise of his financial control duties. In any event, I support completely the view of the President of the Treasury Board, as expressed in the House of Commons, that the senior financial officer in each department or agency of Government should report to, and be directly accountable to, the deputy head or equivalent for the effective discharge of his functions.

A survey of the backgrounds of the persons designated by their deputy heads as senior financial officers was carried out in May 1977. In the 33 departments

and agencies reviewed only 15, or less than half, held professional accounting designations (CA, CGA or RIA). Eight others held related university degrees (B.Comm., MBA) and the other 10 held neither professional accounting designations nor related university degrees.

To function effectively, the senior departmental officer responsible for financial management and control in departments and agencies must:

- have the financial function as his main concern;
- report directly to the deputy head and be a member of the senior management committee; and
- have the training, experience and range of responsibilities to act as the deputy head's adviser on financial management and control concerns and to provide the necessary leadership to all staff with financial responsibilities in the department.

**8.34 Internal direction and guidance and scope of responsibilities of financial staff.** *Senior departmental financial officers ought to give greater direction or guidance to staff performing financial management and control duties within departments. This should include as a minimum:*

- *comprehensive departmental financial manuals;*
- *personal contacts with financial and other officers to whom they give technical direction, including formal meetings and periodic field visits; and*
- *participation in the selection, training and evaluation of financial staff, even where they are not directly under their supervision. (1975 Report - paragraph 10.37)*

*Senior departmental financial officers ought to be given responsibility for:*

- *providing budgetary, accounting and financial reporting services;*
- *ensuring that adequate financial controls exist over all assets and financial transactions;*
- *advising and supporting deputy heads and their staff in all matters pertaining to financial management and control;*
- *developing, monitoring and controlling budgetary allocations through analysis of financial reports and ensuring the adequacy of the systems used in their preparation; and*
- *furnishing technical direction and guidance to all personnel within departments responsible for these duties. (1975 Report - paragraph 10.38)*



During the last three years, departmental financial staffs have been encouraged to accept an expanded role as defined by Treasury Board policy and reinforced by these recommendations. To date, however, departmental efforts have been directed to defining what should be done rather than in doing it. This has been evident in the widespread development of departmental financial manuals and the documentation and communication of financial roles and responsibilities. Improvements in functional guidance have been noted in a number of departments where persons with financial and accounting responsibilities now report functionally to the senior financial officer and the senior financial officer now participates in the evaluation of financial staff not directly under his supervision.

**8.35 Appointment of financial officers.** *The Public Service Commission ought to appoint senior departmental financial officers only after consultation with appropriate central agencies to ensure that recognition is given to the qualifications and performance of the persons recommended by deputy heads. Appointments of other financial officers ought to be made within departments only after similar consultation with senior departmental financial officers. (1975 Report - paragraph 10.39)*

The Financial Administration Branch of the Treasury Board Secretariat is responsible for advising the Public Service Commission on all appointments to the senior financial officer positions. It is now routine for this Branch to be consulted whenever a financial position is being staffed at a senior level.

### **Need for Stronger Central Direction**

**8.36 Consolidation of central responsibilities.** *All the recommendations in this report have as their objective the improvement of financial controls. The more significant ones, either specifically or by implication, recognize the need for a central agency to supply overall direction. It is clear that if controls are to be co-ordinated and are to operate effectively, responsibility for the following activities should be clarified and unified wherever possible:*

- *recommending government policies, directives and guidelines in the area of financial management and control, and providing interpretations thereof;*
- *advising on the form of the Estimates and Public Accounts;*
- *assessing departmental program and activity structures, and cost and other measurement systems in support of them;*
- *approving and monitoring departmental budgetary control, financial reporting and financial control systems;*
- *providing analyses of variances between planned and actual financial performance;*

- *establishing standards for and monitoring internal audit practices within departments and agencies;*
- *establishing the accounting practices governing the financial statements and Public Accounts of Canada; and*
- *assisting the Public Service Commission in the selection, training and career development of financial staff. (1975 Report - paragraph 10.40)*

As indicated throughout this Part, certain of these activities have been carried out by the Financial Administration Branch of the Treasury Board Secretariat, particularly during the last year. And, most importantly, the Government has established the position of Comptroller General and is seeking to appoint a person with outstanding qualifications to the position. This appointment should materially expedite progress towards achieving adequate systems of financial management and control in departments and agencies of the Government of Canada.



**REVIEW OF ACTIONS ON REPORTED DEFICIENCIES  
IN FINANCIAL MANAGEMENT AND CONTROL PRACTICES  
OF CROWN CORPORATIONS**

**Introduction**

**9.1 Monitoring activities.** Part 5 of my 1976 Report contained a summary of the observations and 18 main recommendations of government-wide significance arising from our study of financial management and controls in Crown corporations. Appendix C of that Report contained comprehensive documentation of these findings and Appendix D included summaries of the reports on each of the 27 Crown corporations studied and the responses of their respective heads.

**9.2** In accordance with the undertaking requested by and given to the Standing Committee on Public Accounts, my Office has undertaken to monitor the actions by the Government and by Crown corporations in response to our observations and recommendations. This Part comments on the status of actions to August 1977.

**9.3** The Secretary of the Treasury Board, in late October 1976, responded by letter to Part 5 of the 1976 Report, but without commenting on each of the 18 main observations and recommendations it contained. In the concluding paragraph of his letter, which was included in the Report, the then Secretary of the Treasury Board stated:

I do not feel that you would want me to comment on each of your observations in this response, since they are, in the main, enunciations of principles whose implementation will depend in large measure on the decisions taken by Parliament as to the future form of its relationship with Crown corporations. I can assure you that your findings which, I understand, complement many of the findings of the study undertaken by the Privy Council Office, will be given the most serious consideration in framing whatever recommendations are made to Parliament on this subject.

**9.4** Immediately after the tabling of the 1976 Report in the House of Commons, the Standing Committee on Public Accounts began its deliberation on matters arising from the Report, giving particular attention to the status of financial management and control in Atomic Energy of Canada Limited, one of the corporations included in the Study. One meeting was devoted to an overview of the issues of government-wide significance affecting Crown corporations. At subsequent meetings, the heads of several Crown corporations and their senior officers commented on observations and recommendations pertinent to their

corporations. The Public Accounts Committee requested and received during April of 1977 updated responses from all Crown corporations studied.

On April 26, 1977, the Honourable Robert Andras, President of the Treasury Board, appeared before the Public Accounts Committee and reaffirmed the Government's intent to improve the financial management and control of Crown corporations. At that hearing he stated:

. . . we recognize the problem, we share the concern and the objectives, and we are indicating our intent to deal with this in legislative form soon.

**9.5** On August 18, 1977, the Government, following a study conducted by the Privy Council Office, published a document entitled *Crown Corporations - Direction, Control, Accountability - Government of Canada's Proposals*. These Government Proposals go beyond the issues that emerged from our study of financial management and controls. In the introduction to the Proposals the Government states:

While the Auditor General's Report addresses the financial management and control of Crown corporations, the Government is also concerned with the wider question of the general relationship which exists or should exist among Crown corporations, ministers, the government and Parliament.

One other important difference is that the Government Proposals cover all Crown corporations, whereas our study was restricted to those which this Office audits and which generally are dependent on the public purse and/or carry on operations of a government nature. Our recommendations were intended for Crown corporations exhibiting these characteristics and we stated that any corporation meeting the tests of financial viability and commercial-type activity could be subject to a different set of rules, whose nature we did not attempt to describe.

**9.6** **Summary of observations and recommendations on financial management and control in Crown corporations.** Part 5 of my 1976 Report summarized the results of our analysis of the financial relationships that Parliament and the Government have with Crown corporations, and highlighted those significant weaknesses concerning internal financial management and control activities which were common to a number of the Crown corporations studied.

Our study concluded:

*In the majority of the Crown corporations audited by the Auditor General, financial management and control is weak and ineffective. Moreover, co-ordination and guidance by central government agencies of financial management and control practices in these Crown corporations are virtually non-existent.*

**9.7** Both the government-wide recommendations and the more specific recommendations on individual Crown corporations were designed to enable Parliament and the Government to control effectively the activities of those Crown corporations that are subsidized in whole or in part from the public purse and to ensure that Crown corporations control adequately the public funds entrusted to them.

Each of the 18 main recommendations was designed to serve as an important element of financial management and control. When viewed together, these recommendations are aimed at establishing the stronger framework necessary to achieve the objectives stated in the previous paragraph. This framework was designed to ensure that:

- the Financial Administration Act would continue as a basis for parliamentary and governmental control of Crown corporations;
- Parliament and appropriate central agencies would receive the information required to assess corporate plans and monitor performance of Crown corporations which do not meet the test of financial viability and carry on activities which are similar to other government organizations;
- the financial statements of Canada would report the cost of government activities in the same way whether they are undertaken by Crown corporations or by departmental forms of organization;
- Crown corporations would submit to Parliament and to the Government suitable and meaningful financial information about their planned activities and that subsequently their activities would be reported clearly in the Public Accounts of Canada;
- financing practices would distinguish between Crown corporations' costs to be borne by the beneficiaries of their services as opposed to those to be paid from the public purse so there would be an adequate basis for assessing management's performance;
- mechanisms would exist so the Government could monitor the execution of approved programs on a continuous basis to ensure effective management and achievement of stated and approved objectives; and
- there would be a clearly defined focal point of responsibility in Government for ensuring that Crown corporations entrusted with the use of public funds would have effective systems of financial management and control.

**9.8 Government Proposals for direction, control and accountability of Crown corporations.** In the introduction to its Proposals, the Government stated that:

The Government has decided to publish this Paper at this time in order to encourage public discussion and comment and allow the Government to hear and consider the comments of the Royal Commission on Financial Management and Accountability, the Auditor General, the interested public and, of course, the Crown corporations themselves, prior to introduction of an omnibus Crown Corporations Bill in Parliament.

I am pleased to have had the opportunity to comment on the Government Proposals for the direction, control and accountability of Crown corporations. On October 7, 1977, I replied to the letter which the Prime Minister had sent me enclosing a copy of the Government Proposals. Attached to my letter was a memorandum which has been reproduced in this Part of my Annual Report. It analyses the impact of the Government Proposals on each of the 18 recommendations contained in Part 5 of my 1976 Report.

**9.9**           The following is the complete text of my letter of October 7, 1977.

October 7, 1977

The Right Honourable Pierre Elliott Trudeau, P.C., Q.C., M.P.,  
Prime Minister of Canada,  
Ottawa, Ontario.  
K1A 0A3

Dear Prime Minister:

I was pleased to receive a copy of the Government Proposals for the direction, control and accountability of Crown corporations, and your invitation to comment on them.

At a meeting of the Standing Committee on Public Accounts on April 26, 1977, I expressed my belief that the Government and my Office have as a common objective the improvement of financial management and control in the Government of Canada, including its Crown corporations. In my opinion, these Proposals provide clear and most welcome evidence of the Government's desire to correct the deficiencies identified in my 1976 Report to the House of Commons.

Your Government's Proposals affect not only the financial management and control of Crown corporations but also the wider questions of the general relationships that should exist between them and Ministers, the Government, and Parliament. I am directing my comments to those Proposals related to questions of financial management and control primarily as they apply to the corporations I audit.

The draft legislation appended to the Proposals provides a framework within which the recommendations of the Financial Management and Control Study conducted by my Office could be implemented for Crown corporations. Because government-owned or controlled corporations not designated as Crown



corporations are excluded from the Government Proposals, it will be necessary to see the actual schedules and what the Government proposes for those not scheduled before a complete assessment of the Proposals can be made.

The Proposals say the Government intends to present, in a Position Paper to the Royal Commission on Financial Management and Accountability, the administrative systems and procedures it suggests should be put in place to fulfil the purposes of its Proposals. Since these systems and procedures will determine in large measure the extent of achieving the improvements in financial management and control I recommended, my comments at this time are subject to the effectiveness of methods used to implement the Government Proposals.

Attached to this letter are comments which assess the Government Proposals by relating them to each of the recommendations in Part 5 of my 1976 Report. Comments also are provided on two issues not raised in my 1976 Report, namely the responsibilities of Crown corporation auditors and recent recommendations made by the Standing Committee on Public Accounts concerning Polysar Limited.

It was my understanding at the time of deliberation on the Auditor General Act that the duties of auditors of all government-owned or controlled corporations would be addressed in the Crown corporation legislation. The Government Proposals deal with the appointment of auditors and state that the responsibilities of the auditors of those corporations not designated as Crown corporations would be the same as those now set forth under Section 77(1) of the Financial Administration Act. No consideration appears to have been given to whether the duties of auditors defined in Section 77(1) should be expanded to include those set out in Section 7(2)(c), (d) and (e) of the Auditor General Act.

Following recent hearings on Polysar Limited, the Standing Committee on Public Accounts made certain recommendations on the financial management and control practices of Crown corporations. I support these recommendations and believe that they should be considered for inclusion in the Crown corporation legislation.

In conclusion, I wish to thank you for this opportunity to comment on the Government Proposals.

Yours very truly,

J. J. Macdonell  
Auditor General of Canada

The following sections assess the Government Proposals in relation to each of the recommendations contained in my 1976 Report which are set out in italics.



## Creation and Classification of Crown Corporations.

**9.10**      **Creation of Crown corporations.** *All government-owned and controlled corporations should be scheduled in the Financial Administration Act and subject to its provisions. (1976 Report - paragraph 5.8)*

The draft legislation proposes to control the establishment of new government-owned and controlled corporations by requiring that each receive the explicit authorization of the Governor in Council.

The Government Proposals provide for the scheduling in the Financial Administration Act only of wholly-owned corporations and their subsidiaries, but do express the intention of scheduling as many of these as possible. The Government states that it intends to make proposals as soon as possible regarding the control, direction and accountability of corporations that remain unscheduled.

Our proposals did not envisage that all government-owned or controlled corporations be listed under the existing schedules of the Financial Administration Act. If all were to be scheduled, it would probably be appropriate to create an additional classification in the Financial Administration Act to accommodate any requiring rules different from those now in the Act. Thus, the Government's proposals, once known, may satisfy this recommendation which was designed to ensure that all government-owned or controlled corporations were identifiable by Parliament and subject to an appropriate set of rules.

**9.11**      **Classification of Crown corporations.** *The present classification of Crown corporations in the Financial Administration Act should be re-examined and two different groups should be created: one for all financially dependent corporations or those carrying on operations of a governmental nature; the other for all corporations meeting the test of financial viability and carrying on commercial activities. Since the nature of a corporation's operations and its resulting need for financial independence can and do change, the classification system should provide for regular reassessment of each corporation to ensure that classifications remain valid. (1976 Report - paragraph 5.9)*

The Government Proposals maintain the existing Schedule B, C and D classification of Crown corporations under the Financial Administration Act but eliminate the present criteria for identifying corporations to be included in each classification. In lieu of defined classifications, the government proposes scheduling by the Governor in Council "according to the degree of control over the financial affairs of the corporation that he considers desirable..."

The tests of financial viability and commercial-type operations we recommended appear to be rejected in the Proposals because of the difficulty of applying them to corporations which do not fall clearly into either classification. Nevertheless, the Government must use some criteria in deciding on the appropriate degree of control, and the ones we proposed would appear to have merit from the standpoint of Parliament.

If the actual classification takes into account the considerations suggested in the recommendation, the result will be substantially the same as the one the recommendation was designed to achieve. Nevertheless, this would be more likely if the suggested criteria were incorporated in the legislation.

### **Budgetary and Accounting Consequences of Crown Corporation Classification**

**9.12** *Crown corporations which carry on government-type activity, or are financially dependent on the public purse, should be included in the Government of Canada accounting entity:*

- *to be consistent with the basic concept of segregating governmental from commercial activities undertaken under the auspices of the government; and*
- *to provide for more informative disclosure of summary information in the Estimates and in the Public Accounts so that these documents display consistently all government-type activities financed out of the public purse. (1976 Report - paragraph 5.10)*

The Government Proposals do not deal with the subject of this recommendation. However, it is hoped that the Government will consider it while making changes of a similar nature for revolving funds as recommended by the Study of the Accounts of Canada. It is difficult to understand why the corporations which are heavily dependent on the public purse and carry on government-type activities should be regarded as being outside of the accounting entity reported on in the financial statements of the Government of Canada.

### **Forms of Corporate Financing.**

**9.13** *Non-government loans. Crown corporation loan financing derived from external sources should be restricted and where deemed necessary it should be subject to appropriate parliamentary review through budget submissions. (1976 Report - paragraph 5.12)*

This recommendation was made because of our concern that allowing Crown corporations to borrow directly results in an understatement of the net debt of the Government and creates commitments against the Consolidated Revenue Fund without the specific approval of Parliament.

The draft Crown Corporations Act expands the powers of Schedule C and D corporations to borrow outside the Government. This position is based on the principle stated in the Proposals that private financing is appropriate for the pursuit of strictly commercial objectives although government loans or appropriations would be used to achieve government objectives. The Government has indicated its intent to present in a schedule in the Public Accounts only borrowings by Crown corporations which act as agents of Her Majesty.

The arguments advanced in the Government Proposals in support of this practice are that the commercial activities of Schedule C and D corporations should be exposed to the test of the market place and the cash drain on the Consolidated Revenue Fund for commercial activities should be curtailed. The first argument, however, is not convincing since the prudent investor will look for security more to the Government's guarantee or its implied moral obligation to make good on possible loan defaults than to the value of the corporation's own assets. Further, failure to disclose in one schedule all borrowings, including those of Crown corporations which are not agents of Her Majesty, will result in a fragmented presentation of Crown corporation indebtedness.

**9.14 Equity investment.** *The use of equity financing for Crown corporations should be eliminated where practical.* (1976 Report - paragraph 5.13)

The Government Proposals do not comment on the use of equity financing for Crown corporations.

My 1976 Report detailed several instances where government loans to Crown corporations, including the St. Lawrence Seaway Authority, are not likely to be recovered without appropriations from Parliament. On April 1, 1977, new legislation converted loans from Canada totalling \$624.9 million to equity in the St. Lawrence Seaway Authority. This situation exemplifies the inappropriate use of debt financing initially and how misleading equity financing is when an operation lacks commercial viability.

In a situation of this nature, if the intent of Parliament is to recover the capital cost and reimburse the Consolidated Revenue Fund, the cost should be financed as a loan. If there is no intent to recover the capital cost, then it should be written off through budgetary appropriations. Equity treatment leaves no reasonable basis for assessing user charges and managerial performance.

**9.15 Government loans.** *Crown corporations should be financed so as to distinguish clearly between amounts to be recovered from users or resulting in financial claims against non-governmental parties (i.e., loans) and those to be paid out of the public purse (i.e., contributions). This distinction would be based on the feasibility studies prepared by the corporation and approved by the Government.* (1976 Report - paragraph 5.14)

In expanding the borrowing powers of corporations, the Government Proposals encourage them to raise private financing for the pursuit of strictly commercial objectives and state that activities related to the achievement of government objectives and which are not viable in a commercial sense would be financed through government loans or budgetary appropriations. However, the Proposals do not explain the circumstances in which government loans, as opposed to budgetary appropriations, would be used to finance activities considered to be related to the achievement of government objectives and commercially not viable.



## **Preparation and Government Review of Crown Corporation Financial Plans**

**9.16      Communication of government objectives and priorities.** *Governmental objectives and priorities, detailed enough to provide appropriate guidance, should be communicated formally to Crown corporations on a timely basis. (1976 Report - paragraph 5.16)*

The Government Proposals acknowledge the need to improve the communication of objectives by providing that the Government may prescribe additional objectives which will be communicated through directives, policy statements and the approval of budget and corporate plans. In the Proposals it is stated that:

It is the Government's view that means must exist whereby governments may, on a continuous basis, communicate broad policy objectives to the corporations and whereby the corporations must account to government and Parliament for the achievement of those objectives.

The Government Proposals state that the designated Minister is the focal point for the Government's policy direction, control and accountability of a Crown corporation and the draft legislation makes provision for the issue of directives to corporations by the Governor in Council. Boards of Directors of individual Crown corporations are to be responsible for adapting corporate policy to this broader public policy. The Proposals thus both recognize the problem and provide the means for its resolution.

**9.17      Program Forecast and Estimates submissions.** *Requirements for Crown corporation budgetary submissions should be included in a Treasury Board manual. Specific information requirements for individual corporations should be agreed among the Treasury Board Secretariat, the appropriate minister and the corporation, and once agreed, these requirements should be documented, updated regularly, and referred to in letters calling for submissions. (1976 Report - paragraph 5.17)*

*Central agencies and ministers have to be informed of Crown corporation financial plans to discharge their responsibilities effectively under the Financial Administration Act. To accomplish this, the Treasury Board should prescribe the financial and operating data required to support Program Forecast and Estimates submissions by Crown corporations. (1976 Report - paragraph 5.18)*

The Government Proposals provide for enabling legislation giving the Treasury Board broader powers to prescribe by regulation the form in which operating and capital budgets and multi-year plans are to be prepared, the information to be contained or to accompany such budgets or plans, the time each year they are to be submitted to the appropriate Minister and the planning period they are to cover. This authority clearly gives the Treasury Board power to issue suitable communications that should, when coupled with the appropriate degree of guidance as to objectives, satisfy the intent of these recommendations.

**9.18**      **Presentation of financial plans to Parliament.** *The Estimates is the document most suited to provide disclosure of Crown corporation plans to Parliament. Therefore, procedures should be amended:*

- *to consolidate the Estimates and the Capital and Operating Budgets into one comprehensive document; and*
- *to develop appropriate procedures for remedying the deficiencies in the content of the information now available.*

*Once the Capital and Operating Budgets are fully integrated with the Estimates, thereby providing detailed supporting information, separate Capital Budgets would no longer be required by Parliament. (1976 Report - paragraph 5.19)*

All Crown corporations are required to table capital budgets under present legislation and this will be continued. In addition, the Proposals call for the tabling in Parliament of operating budgets if, in the opinion of the appropriate Minister and the President of the Treasury Board, a Crown corporation named in Schedule C has needed and is likely to continue to need substantial appropriations from Parliament.

It is also the stated intent of the Government to have operating budgets, where required, and capital budgets tabled in Parliament at the same time as the Estimates. However, the Proposals do not provide for including these Crown corporation capital and operating budgets in the Estimates. Thus, there will be no overall presentation facilitating parliamentary reference and permitting a comprehensive assessment of all demands to be placed on the Consolidated Revenue Fund. Moreover, it will continue to be difficult, if not impossible, to assess capital budgets that are tabled in Parliament if the corresponding operating budgets are not tabled as well.

There is no requirement in the Government Proposals for a Crown corporation listed in Schedule D of the Financial Administration Act to table an operating budget in Parliament even if it should need significant amounts of public funds. My 1976 Report recognized that there may be some Crown corporations which meet the test of financial viability and carry on commercial activities. Where this is so, the public interest can be properly safeguarded by assessing performance through comparisons with similar organizations in the private sector and in other ways. If Schedule D of the Financial Administration Act is to be amended to include only those Crown corporations which meet the above tests, then the Government Proposals and my recommendations do not significantly differ. However, if Schedule D is to continue to include Crown corporations which require significant amounts of public funds, then Parliament will still receive insufficient data on which to evaluate Government proposals concerning the allocation of funds.

### **Budgetary Control**

**9.19**      **Central agency budgetary control.** *A central agency should be responsible for monitoring Crown corporation financial results in relation to financial*



*plans disclosed in the Estimates. The agency should:*

- *require standard financial information from each corporation, supplemented by additional information as required;*
- *obtain analysis of significant variances between actual and planned expenditures; and*
- *prepare a monthly report based on the analysis of approved budgets and expenditures, and variances between them. (1976 Report - paragraph 5.20)*

The Government Proposals place the onus for monitoring Crown corporations on the appropriate Minister and call for the Crown corporations to submit quarterly interim financial statements to the appropriate Minister. These interim financial statements will also be made available to the Treasury Board Secretariat and the Department of Finance, thus clearly providing the means for a central agency to perform the duties contained in our recommendation. Now that the Government has announced its intention to appoint a Comptroller General of Canada it should be expected that he would have a significant part to play with respect to the recommended role of a central agency.

**9.20**      **Control of appropriations and cash management.** *Procedures should be established to specify the documentation required to support draw downs from appropriations and to clarify the role of the appropriate Minister. (1976 Report - paragraph 5.21)*

*To ensure effective monitoring of Crown corporation cash balances, formal written procedures should be prepared specifying the nature of the information required and the form and timing of reporting. The information reported should be verified periodically. (1976 Report - paragraph 5.22)*

The Government Proposals do not refer to this subject, but this form of control can be established through administrative procedures.

## **Financial Reporting to Parliament**

**9.21**      **Corporate financial statements.** *Treasury Board should issue and enforce directives requiring Crown corporations to use generally accepted accounting principles as laid down by the Canadian Institute of Chartered Accountants. (1976 Report - paragraph 5.23)*

The Government Proposals require the Treasury Board to approve the accounting principles used by Crown corporations. The uniform and consistent application of generally accepted accounting principles is rejected on the grounds that each Crown corporation should be permitted to adopt the accounting practices best suited to its unique requirements. This position is somewhat surprising in that principles established by the Canadian Institute of Chartered Accountants now apply to the substantially more varied corporations of the

private sector, with the explicit endorsement of the Government through its corporate and taxation statutes. Since the Proposals state that the Treasury Board would approve standards less stringent than those established by the Canadian Institute of Chartered Accountants in only exceptional circumstances, it is difficult to understand why our recommendation was not accepted. It is urged that this matter receive further consideration.

**9.22 Financial disclosure in the Public Accounts.** *To assist Parliament in assessing both the individual and the collective activities of Crown corporations:*

- *Volumes I and II of the Public Accounts should include corporate financial data appropriately integrated with departmental data, and expanded to include on a comparative basis the information proposed for the Estimates; and*
- *Volume III should contain summary financial information.* (1976 Report - paragraph 5.24)

The Government Proposals provide for including in Volume III of the Public Accounts the financial statements and auditors' reports of government-owned and controlled Canadian corporations and such subsidiaries of the corporations as the designated Minister may prescribe. They also state the Government's intent to record in a separate schedule of the Public Accounts all private borrowings by Crown corporations who act as agents of Her Majesty.

The Government Proposals in this area should result in Parliament having annual access to the financial statements of all government-owned and controlled Canadian corporations and will provide a continuous reference for all of them.

The intended course of action does not recognize the need to provide additional appropriate summary information and analyses of Crown corporation financial activities as proposed in our recommendation. Without this type of information, it is likely that the expanded number of financial statements in Volume III of the Public Accounts will make it even more difficult to assess or to understand the overall activities of these corporations.

**9.23 Annual reports.** *Treasury Board should:*

- *issue directives to Crown corporations giving guidelines on the form and content of financial and supplementary information to be contained in corporate annual reports; and*
- *monitor the annual reports of Crown corporations to determine why they are not tabled in Parliament within the time period specified in the Financial Administration Act so that appropriate remedial action can be taken.* (1976 Report - paragraph 5.25)

Under the Government Proposals the appropriate Minister will continue to have the authority to prescribe the form of a Crown corporation's annual report and this will include the right to require the provision of information respecting the business and affairs of the corporation in addition to the statements of account. Also, a requirement is introduced for each annual report to be signed by at least two directors of the corporation.

The Proposals may result in achieving the intent of our recommendations. However, the need to ensure consistency in the quality of the information contained in annual reports has not been specifically recognized in the Proposals with the exception that the Treasury Board will have responsibility for approving the form, standards and accounting principles applicable to the financial statements of all Crown corporations.

### **Financial Management and Control Within Crown Corporations**

**9.24 Standards of financial management and control.** *The central agency of government responsible for prescribing the standards of financial management and control in government departments and agencies should prescribe and enforce similar standards for Crown corporations. (1976 Report - paragraph 5.26)*

The Government Proposals place primary responsibility for ensuring an adequate level of managerial control, including financial management and control, on the boards of directors of Crown corporations and also provide for greater ministerial direction and monitoring. The Government plans to present the Royal Commission on Financial Management and Accountability with a Position Paper on the financial management and control of Crown corporations and states that this Paper will outline the administrative systems and procedures that it suggests be put in place. Expansion and continuous updating of this Paper by a central agency would meet the objectives of our recommendation and need not lessen the responsibilities of the appropriate Ministers, directors and management. The Treasury Board's Guide on Financial Administration for Departments and Agencies of the Government of Canada, appropriately amended, could serve as a basis for providing the standards of financial management and control for Crown corporations contemplated in our recommendation.

**9.25 Responsibility of central agencies.** *Central agency responsibility for financial management and control of the Crown corporations that are financially dependent on appropriations or that carry on operations of a governmental nature should be clarified in the Financial Administration Act. These responsibilities should include:*

- *recommending government policies, directives and guidelines in the area of financial management and control, and providing interpretations thereof;*
- *advising on the form of the Estimates and Public Accounts;*

- *assessing program and activity structures, and cost and other measurement systems in support of them;*
- *approving and monitoring budgetary control, financial reporting and financial control systems;*
- *providing analyses of variances between planned and actual financial performance;*
- *establishing standards for and monitoring internal audit practices within Crown corporations;*
- *establishing the accounting practices governing the financial statements of Crown corporations and their presentation in the Public Accounts of Canada; and*
- *assisting in the selection, training and career development of financial staff. (1976 Report - paragraph 5.27)*

The Government Proposals clarify and give greater authority to the Treasury Board over those parts of our recommendation referring to the form of the Estimates and to establishing the accounting practices governing the financial statements of Crown corporations.

The Proposals take the view that the appropriate Minister is the focal point of the Government's policy direction, control and accountability of a particular corporation, and that boards of directors clearly are responsible for managing the business and affairs of Crown corporations within the framework of broad policy objectives defined by the Government and Parliament. However, the Proposals do not establish a clearly defined means whereby a central agency of government may, on an ongoing basis, monitor the financial management and control systems of Crown corporations. Because of the seriousness of the deficiencies reported in my 1976 Report with respect to the financial management and control systems of individual Crown corporations and in light of the Government's announced intention to appoint a Comptroller General as chief financial administrator for the Government, it is both appropriate and important that his responsibilities encompass Crown corporations as well as departments and agencies.

### **Matters Not Dealt With in the Government Proposals**

**9.26 Duties of auditors.** Two general Acts, the Auditor General Act and the Financial Administration Act, define the responsibilities of auditors with respect to governmental organizations.

Section 6 of the Auditor General Act provides that the Auditor General, in his capacity as auditor of the Accounts of Canada, shall express his opinion on the financial statements of Canada. In addition, Section 7 (2) requires that the annual Report of the Auditor General to the House of Commons



... shall call attention to ... any cases in which he has observed that ...

- (c) money has been expended other than for purposes for which it was appropriated by Parliament;
- (d) money has been expended without due regard to economy or efficiency; or
- (e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

Section 77 (1) of the Financial Administration Act contains the requirement that the auditor of a Crown corporation express his opinion on the financial statements of the corporation and states that

the auditor shall call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

In conducting audit examinations of those Crown corporations of which the Auditor General has been appointed auditor, it is my intention to apply the same audit standards and to discharge the same reporting mandate in terms of scope as apply to all other government entities dependent in whole or in part on the public purse; the requirements are defined clearly in the new Auditor General Act. No doubt this would apply as well to private sector auditors appointed as auditors of Crown corporations or government-owned or controlled corporations partially or wholly dependent upon funds provided by Parliament for their operation. However, it would seem desirable that this be made clear in new legislation.

In the case of Crown corporations and government-owned and controlled corporations that are commercially viable, other financial criteria can be applied to evaluate the overall quality of performance. Thus the scope and reporting mandates of auditors of such corporate entities, whether it be the Auditor General or a private firm, need to be made clear. Regardless of other financial criteria, however, in the evolving emphasis on accountability a convincing case can be made, in my opinion, for the application of consistent audit guidelines, standards and reporting for all entities in which public funds are involved and the new Auditor General Act charts a clear course in this matter.

**9.27 Recommendations by the Standing Committee on Public Accounts.** In its Second Report to the House of Commons dated July 7, 1977, on the subject of Polysar Limited, (reproduced in Appendix E), the Standing Committee on Public Accounts provided a summary of 12 recommendations affecting Crown corporations which, because of their significance, are reported in full below. The Committee recommended that:

- (a) The Government monitor compliance with its guidelines on commercial practices of Crown corporations, impose penalties for non-compliance, and disclose the results to Parliament.



- (b) The Government issue guidelines on the operation of foreign subsidiaries of Crown corporations to ensure that their practices and records come under parliamentary scrutiny.
- (c) The responsible ministers be adequately represented on boards of directors and audit committees of Crown corporations.
- (d) The board of directors of each Crown corporation form an audit committee of directors at least a majority of whom are not otherwise connected with the Crown corporation; that such committees meet with the auditors of the corporation at least annually; and that the Auditor General have the right to attend or be represented at all such meetings.
- (e) Each Crown corporation establish standards of conduct and practice and ensure compliance throughout the corporate group.
- (f) Auditors of Crown corporations adopt consistent standards of audit reporting to ministers and to Parliament.
- (g) Auditors of Crown corporations furnish the Auditor General with copies of their reports and audited financial statements, provide him with other information he deems necessary, and consult with him on a regular basis.
- (h) The Auditor General have access to corporate records and the right to conduct investigations.
- (i) The Auditor General develop a manual for the consistent reporting by auditors of Crown corporations.
- (j) The Auditor General include in his annual Report a summary of all matters reported under Section 77 (1) of the Financial Administration Act.
- (k) The Government issue guidelines respecting the objectives of foreign operations of Crown corporations.
- (l) The Government ensure that the right of access to information is afforded to Parliament and the Government by those Crown corporations that operate in foreign countries in order to protect the interests of the ultimate shareholders, the Canadian taxpayers, and to permit public and parliamentary scrutiny of their corporate interests.

In paragraph 60 of its Report, the Committee stated that its recommendations summarized in (a) to (e) above were

intended to apply not only to Crown corporations but also to any corporation or agency or sizeable operation owned or effectively controlled by the Government.

Also, in paragraph 70 of its Report, the Committee made the following detailed recommendation which it did not include in its summary of recommendations quoted above:

The Government has stated its intention to introduce new legislation with respect to Crown corporations. Your Committee recommends that the Government consider the advisability of clearly defining in legislation the following: (a) all agencies of the Crown including those corporations substantially owned or effectively controlled by the Crown; (b) the responsibilities of these agencies; (c) the criteria for the appointment of auditors of these agencies; and (d) the duties of these auditors.

We understand that the recommendations of the Public Accounts Committee were not available in time for their consideration in formulating the Government Proposals. Accordingly the Proposals do not specifically address these recommendations or the concerns which gave rise to them. For example, the Committee recommended that the establishment of audit committees of the boards of directors of Crown corporations be mandatory and that these committees be formed along the lines described in its Report. Although the Canada Business Corporations Act requires private sector corporations to have audit committees, the Government does not propose to include a similar requirement in its legislation on Crown corporations.

I support all of the above recommendations of the Public Accounts Committee and hope that the Government will give serious consideration to implementing them in its final legislative proposals on Crown corporations.

### **Corrective Action Taken Within Individual Crown Corporations**

**9.28** We have undertaken to monitor the remedial action by individual Crown corporations in response to the detailed observations and recommendations we made last year. The updated responses provided by the heads of Crown corporations to the Standing Committee on Public Accounts in April 1977 formed the basis on which we obtained information about corrective action by individual Crown corporations. This knowledge was supplemented by reviews conducted primarily as part of our annual audit examinations.

Much needed improvements within individual corporations, particularly in the areas of accounting systems, budgetary control, management reporting and internal audit, are still for the most part in the developmental stage or in the very early stages of implementation. A start has been made and there is a greater degree of recognition by management of the need for strong and effective financial management and control. However, further continued effort will be required by the Crown corporations studied before they achieve high standards of financial management and control over funds coming from or accruing to the public purse. It is still too early to assess in detail what success has been achieved. In many cases the detailed procedures and systems have not been installed pending completion of organizational changes.

We shall continue to monitor the progress of individual Crown corporations in improving financial management and control and report thereon to Parliament.

## **SPECIAL AUDITS AND INQUIRIES**





## SPECIAL AUDITS AND INQUIRIES

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## **SPECIAL AUDITS AND INQUIRIES - GENERAL**

### **Introduction**

**10.1** The Special Audits and Inquiries Branch of the Audit Office initiates and conducts studies that are broader in scope than normal day-to-day audit activities. In-house staff resources are supplemented as required, by private sector or government specialists or by professionals in other disciplines. Although separate terms of reference are established for each project, the main focus in each is on the adequacy of existing financial management and control practices in specific areas.

**10.2** My 1976 Report included observations arising from the following special studies made by the Special Audits and Inquiries Branch:

- Travel and Relocation Expenses
- Grants and Contributions
- Oil Import Compensation Program
- Receipt and Deposit of Public Money
- Office Accommodation
- Internal Controls in Payroll Systems
- Manufacturers' Sales Tax

**10.3** The study of Travel and Relocation Expenses was continued into 1976-77. The study of Grants and Contributions is a multi-year project. Observations arising from the continuation of these studies are contained in Parts 11 and 12 of this Report. Observations on the other five studies mentioned above are contained in this Part. We also refer in this Part to a study initiated in 1976 relating to the use of statistical data in determining certain government expenditures.

**10.4** A study of financial management and control practices relating to contracts in the Federal Government was initiated during the last year. This project will be completed during the current year and matters which should be drawn to the attention of the House of Commons will be included in my 1978 Report.



## **Oil Import Compensation Program**

**10.5 Introduction.** In 1974 at the request of the Governor in Council we undertook a continuing inquiry into the administration of expenditures under the Oil Import Compensation Program under Section 62 of the Financial Administration Act.

The Program was implemented during the first quarter of the 1974 calendar year to cushion the economy from the impact of the rapid increase in the price of imported crude oil used in Canada. The Department of Energy, Mines and Resources administered the Program under authority of Vote 11b, Appropriation Act No. 1, 1974, c.1, until October 31, 1974, when, by virtue of Vote 52a of Appropriation Act No. 3, 1974, 1974-75-76, c.2, its administration was transferred to the Energy Supplies Allocation Board which reports to the Minister of Energy, Mines and Resources.

The Program compensates importers of crude oil and petroleum products for specified cost increases, principally taxation and participation costs imposed by oil-producing countries since November 30, 1973, for cargoes, and since September 4, 1973, for freight. To be eligible for compensation, importers are required to maintain wholesale prices of imported petroleum products or products obtained from compensated crude oil at the levels suggested from time to time by the Minister of Energy, Mines and Resources.

Before July 1975 compensation was based on the lesser of the increase in FOB cost or the increase in the host government take and participation, for each cargo of crude oil or petroleum product imported during the Program as compared to an identical cargo imported on the base-date, plus an allowance for the increase in the cost of transporting this cargo to Canada.

The Program underwent a significant change effective July 1, 1975. All loadings since then are compensated on a flat-rate basis, inclusive of freight, the rate being determined by averaging monthly the delivered cost to eastern Canada of crude oil imported by efficient suppliers, and deducting the theoretical delivered cost of similar Canadian crude oil. The compensation differential between crude oil and imported petroleum products that existed before the change to the flat-rate basis has been retained in order to continue protection to eastern Canadian refiners.

A summary of appropriations and expenditures to March 31, 1977, follows:

<u>Fiscal year</u>	<u>Appropriation</u> (000)	<u>Expenditures</u> (000)
1973-74	\$ 240,000	\$ 157,000
1974-75	1,165,000	1,162,000
1975-76	1,685,000	1,582,000
1976-77	1,410,000	945,000
	<u>\$ 4,500,000</u>	<u>\$ 3,846,000</u>

My fourth report to the Governor in Council dated September 21, 1977, noted that all compensation payments for cargoes loaded before July 1, 1975 are on a provisional basis until the effect of the host government participation on the November 30, 1973, base-date costs has been assessed. An extensive analysis was necessary to ensure that comparative base-date costs used by claimants for imports during the Program conformed to their supply contracts or, in the absence of supply contracts, to the prevailing market prices. In addition, the Board's staff had to ensure that these costs were adjusted to include any retroactive participation anticipated by the claimants in establishing the selling prices for their products for this period. These studies are continuing and the Board is attempting to establish final participation costs in the 1977-78 fiscal year so that all relevant claims may be finalized. However, this may not be achieved as the finalization of participation costs is dependent upon information to be supplied by third parties including overseas suppliers shareholders' auditors and governments of producing countries.

The Board's staff also has had to ensure that increases in freight cost used in establishing these selling prices were not compensated by the Program. The governing principle that the Board recognizes is that claimants should be compensated either by the market or by the Program, but not by both. Conversely, claimants should not be asked to bear additional increases in the costs specified in the regulations that the Government will not permit them to pass on to the market.

The following are significant items that have come to our attention during the course of our examination.

**10.6 Special freight compensation for cargoes lightened in the Caribbean en route to Canada.** My 1976 Report noted that excessive freight compensation of approximately \$5 million had been paid to importers on the hypothetical basis of the landed vessels having made the entire voyage from the original country of export. It was determined that very large crude carriers (VLCC's) had in fact transported the cargoes to the Caribbean where they were transshipped into smaller vessels and then delivered to Canada.

Revisions to calculations during 1976-77 have reduced the previously reported estimated overpayments of \$5 million to \$3.8 million. In a memorandum dated March 28, 1977, prepared by the Energy Supplies Allocation Board for the Minister of Energy, Mines and Resources, the Board acknowledged that it had no recourse but to recover the overpayment. The Board has sought legal advice on the various methods available for effecting recoveries and the matter is now in the hands of counsel for the Board and the affected claimants. However, as at September 21, 1977 none had been recovered.

**10.7 Audit scope.** The Energy Supplies Allocation Board, by virtue of its policy and Program regulations, has recognized the need to have audits made of all claims submitted for compensation. Accordingly the Board has engaged independent auditors, generally the claimant company shareholders' auditor, to conduct specific examinations on the authenticity of claims and on the validity of supporting information. To a lesser extent the Board conducts its own audits of selected claims.

Our review of claims and related audit reports disclosed that less than 3 per cent of the total compensation of \$945 million paid and charged to the fiscal year 1976-77 had been reported on by the independent and Board auditors. Likewise, approximately \$700 million (44%) of the 1975-1976 fiscal year compensation payments, and approximately \$158 million (14%) of those effected during 1974-1975 have yet to be reported on.

In our opinion, subject to the audit of the compensation payments referred to in the preceding paragraph disclosing no significant discrepancies, and subject to the matters referred to above in connection with special freight compensation for cargoes lightened in the Caribbean en route to Canada, payments to March 31, 1977 have been properly processed and are in conformity with the legislation, regulations and guidelines.

**10.8      Audit of price restraint.** The Program aims at cushioning Canadian consumers from price increases that would otherwise have been necessary in imported petroleum products and products derived from imported crude to recover the large increases in producer-country take and participation that occurred on or after January 1, 1974. Canadian consumers had already experienced significant price increases during the second half of 1973 as a result of increases in posted prices and the reduction by the oil companies of discounts off posted prices.

On September 4, 1973, the Prime Minister, as part of the Government's cost-of-living measures, requested voluntary oil price restraint. This request was directed to all producers, refiners, importers, jobbers and other wholesalers, and it covered all crude oil and condensate produced anywhere in Canada and motor gasoline and most products in the middle distillate category, including stove oil, kerosene, home-heating oil and diesel fuel, for consumption in Canada. This price restraint applied except where the Minister was satisfied that increases in the cost of imported oil warranted passing on these increases to Canadian consumers.

On January 31, 1974, the Minister issued a further statement requesting that the freeze be continued until April 1974 and extended it to all product prices in Canada with certain exceptions such as lubricating oils. The Minister also stated that product prices would be frozen at levels prevailing in January 1974, that is, prices were not to reflect the increased tax cost averaging about \$4.00 per barrel imposed by the oil-producing countries on January 1, 1974. This action gave rise to the Oil Import Compensation Program.

The ban on price increases that would normally occur from actions taken by foreign producer countries has continued throughout the Program. Those price increases approved by the Minister resulted from rising non-crude costs and from the decrease in import compensation that followed the increases allowed in western Canadian crude oil prices.

The Energy Supplies Allocation Board has been monitoring the price behaviour of the oil companies. In addition to participating initially in the examination and collection of data at the companies, we have examined the additional data the Board collected from September 1974 to December 1976, and are satisfied that price levels during this period did not exceed price levels prevailing in January 1974 adjusted for allowable cost increases.



Since October 14, 1975, the oil companies have been subject to Anti-Inflation Board price and profit guidelines and the Energy Supplies Allocation Board has been supervising the monitoring of the oil industry compliance with these guidelines on behalf of the Anti-Inflation Board.

## **Receipt and Deposit of Public Money**

**10.9** We reviewed governmental practices in the receipt and deposit of public money during 1975-76 at selected Ottawa and regional office locations of nine departments. The study indicated that, in general, practices did not adequately control cash received, did not comply with applicable Treasury Board regulations and resulted in delays in depositing receipts. Weaknesses in controls over the establishment and operation of transfer accounts and deposit facilities resulted in increased risk of loss or misappropriation of public funds and further delayed transmittal of receipts to the Bank of Canada.

Our observations led to the following recommendations that appeared in my 1976 Report:

- The chief financial officer in each department or agency should ensure that all cash receipts are subject to adequate systems of internal control and that policies and procedures respecting the receipt, handling and recording of public money conform to legislative and regulatory requirements, and that these are communicated in appropriately designed manuals.
- The Treasury Board should consider adopting as administrative policy the requirement that all incoming mail, including mail addressed to individuals, be opened in the central mailroom of each department except mail redirected to a subsidiary mailroom or records office specifically approved by the chief financial officer as a mail-opening facility.
- The Treasury Board handbook on mail management should set out the minimum requirements for information to be included on the mailroom record of receipts and should include all the information necessary to establish responsibility for and control over cash receipts.
- The Treasury Board or another central agency should monitor departmental performance in receiving and depositing money and provide assistance to departments in developing financial systems that comply with regulations yet meet their specific needs.
- The Treasury Board, in co-operation with the Public Service Commission, should develop programs to instruct financial officers, systems analysts and others involved in designing and maintaining financial systems on the need for and the methods of achieving sound practices in the handling and depositing of cash receipts.

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- The portion of the Treasury Board Guide on Financial Administration dealing with the receipt and deposit of public money should be expanded to emphasize the cost to government of delays in depositing receipts, and to state guidelines for achieving the objectives of financial systems in this area.
- The Receipt and Deposit of Public Money Regulations should require all bank accounts and deposit facilities to be established by the Receiver General and the banking community should be advised not to accept deposits of public money except with his authority. Departments using unauthorized deposit facilities should be required to make other arrangements.
- The Department of Supply and Services should maintain a current inventory of authorized bank accounts and deposit facilities and devise appropriate systems and procedures for monitoring their use and for confirming outstanding balances periodically.
- To improve the flow of receipts to the Consolidated Revenue Fund, the Government should study methods available for transmitting funds with a view to developing and implementing a more immediate system so deposits with chartered banks would be transmitted the same day to the Bank of Canada in Ottawa for credit to the Receiver General. As an interim measure, the Government should consider placing all departments and agencies on the telex deposit system.
- The time taken in processing and remitting deductions at source by employers and individual tax instalments should be monitored continuously and appropriate action should be taken where improper remitting procedures or delays in remitting are observed.
- The procedures in effect for depositing and converting receipts in foreign currencies should be reviewed with a view to achieving immediate or early credit of such receipts to the Receiver General and minimizing the costs of conversion.

**10.10** In 1976-77 we examined the receipt and deposit of public money in another 16 government departments. The audit teams responsible for departmental audits carried out the review which was co-ordinated by the Special Audits and Inquiries Branch. Management letters or reports were issued to each department audited and findings were discussed with departmental officials. The audit disclosed weaknesses similar to those reported for 1975-76 and led to similar recommendations.

The Treasury Board is now evaluating and acting upon our recommendations. The Audit Office will continue to monitor the situation and will follow up on actions taken.



## **Office Accommodation**

**10.11** In 1975-76, the Audit Office conducted a study of the financial management and control of office accommodation in the Federal Government aimed at establishing the adequacy of: relevant legislation, executive regulations, and directives and guidelines of control agencies; departmental compliance with the directives and guidelines; methods employed in determining new or consolidated space requirements and in managing and controlling the use of accommodation; and the system of accounting for the cost of accommodation of departments and agencies.

Our review of existing directives and guidelines for the provision and allocation of office space at that time indicated that some current practices tended to encourage inefficient use of space and led to the following recommendations:

- Departments and agencies should be required to include in their annual Program Forecast and Main Estimates submissions, or in a separate but related submission, an all-inclusive forecast of accommodation requirements based on projected manpower and on entitlement in accordance with the promulgated guidelines.
- The Treasury Board should consider further amending its office accommodation guidelines to reflect a more specific target for useable square feet per person and a shorter planning period for space under direct departmental control, while retaining the overall government requirement for a five-year forecast for planning purposes by the Department of Public Works.
- The Government should consider establishing long-term guidelines on the growth of the Public Service to facilitate planning for office accommodation, with due consideration to decentralization and other government objectives.
- Departments and agencies should be instructed to establish appropriate mechanisms for ensuring adherence to Treasury Board directives and guidelines with respect to office accommodation. Internal audit units of departments and agencies should be required to review how their organizations comply with the directives and guidelines.
- Treasury Board staff should monitor compliance with the directives and guidelines systematically and regularly.
- The Department of Public Works should make every effort to ensure that all factors pertaining to the cost of a building project receive adequate consideration and are reflected in the appraisal leading to a choice among alternatives.

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- Departments and agencies should be required to maintain for their accommodation Program Forecast submissions and for monitoring purposes, a space use record system containing all relevant information as to manpower, space entitlement, actual use of space and changes in use. This system and the decision-making process involved in the administration of accommodation should be subjected to internal audit review.
- All under-used accommodation currently under departmental or agency control should be identified and assessed for possible reclassification as vacant space. The Department of Public Works should be assigned the responsibility for all space classified as vacant and should satisfy itself that departments and agencies adhere to the Treasury Board guidelines on accommodation or obtain specific approval for exemption before it implements requests for additional space or changes to existing space.
- The Treasury Board, assisted by the Department of Public Works, should ensure that expertise in accommodation administration and appropriate staff development is available in departments and agencies.
- The Treasury Board, the Public Service Commission and the Department of Public Works should develop and administer training programs in accommodation administration, and participation in these by staff engaged in this function should be made part of job specifications.
- The Treasury Board, in consultation with the Department of Public Works, should complete as soon as possible its project for developing meaningful displays of accommodation costs in the Estimates and in the Public Accounts and for developing an appropriate reporting system to permit such cost displays.
- The desirability of introducing a cost charge-back system for accommodation should again be considered by the Treasury Board once it is possible to assess the effectiveness of the controls the Board has established and those we are recommending.

**10.12** New guidelines were developed and issued in May 1977 under Treasury Board Circular 1977-28 with further aspects to be covered in the future. Although existing guidelines do not respond to all items covered by our observations, they are a definite improvement over the previous ones and should assist in improving financial management and control of office accommodation.

### **Internal Controls in Payroll Systems**

**10.13** In 1976, we undertook a government-wide review of the adequacy of internal controls in payroll systems. These systems cover more than 350,000

employees and involve about \$5,000 million in annual payroll costs (approximately 40% of total government operating expenditures). Our study covered a sample of departments and Department of Supply and Services pay offices.

My 1976 Report contained a brief summary of our observations. These included inadequate delegation of the responsibility for authorizing direct input data to the payroll system, lack of proper reviews of payroll charges in departments and a number of internal control weaknesses in the payroll systems operated by the Department of Supply and Services.

**10.14** During the last year, the Treasury Board and the Department of Supply and Services set up a Pay Study Task Force which has issued a report of its findings. In July 1977, the Treasury Board issued a new policy circular on pay administration which deals with a number of the deficiencies reported. Further comments on controls over payroll appear in paragraphs 6.38 to 6.44 and in paragraph 8.26 of this Report.

### **Manufacturers' Sales Tax**

**10.15** The Excise Branch of the Department of National Revenue is responsible for administering the assessment and collection of the manufacturers' sales tax. Our 1975-76 study indicated that the Branch was performing reasonably well within the limits of its available resources, although improvements could be made in audit development, training, and programs, and in technical interpretations. The Excise Branch has taken steps to correct the deficiencies reported. The Audit Office has not monitored the effect of such measures in 1976-77 but proposes to do so in the current year.

### **Use of Statistical Data in Determining Certain Government Expenditures**

**10.16 Introduction.** During the course of the Financial Management and Control Study conducted in 1975 and 1976, we noted that a significant proportion of Federal Government expenditures was based on statistical data produced by Statistics Canada and other departments. Much of this data appeared to be designed primarily for other uses. There was little evidence of control over the appropriateness of the data for these secondary uses.

These expenditures amount to billions of dollars annually and include, for example, fiscal equalization payments to provinces, post-secondary education financing, extended benefit payments by the Unemployment Insurance Commission, the indexing of Old Age Pension and Canada Pension payments, payments under the Medical Care Act and the indexing of income tax exemptions.

During the year the Audit Office conducted a general review of the uses made of statistical data in determining government expenditures. Our review disclosed that there were few controls to ensure the appropriateness of the data for these secondary uses and that in some cases the data were ill-suited to the purpose. This is due primarily to the data being designed and produced by other

departments, such as Statistics Canada, for quite different end uses. This problem has many interdepartmental and interagency aspects, but no central direction has been provided to resolve it. Discussions with Statistics Canada, the Department of Finance, the Department of Employment and Immigration and the Treasury Board Secretariat confirm my opinion that such central direction is necessary.

**10.17 Fiscal equalization payments to provinces.** The "representative tax system" formula has been used by the Department of Finance since 1967 to calculate equalization payments. This formula requires a measurement of a province's capacity to derive revenues from each type of tax or levy. Twenty fiscal capacity measurements, drawing from approximately 40 data sources, were in use during the period of the review.

As an example, a survey of retail trade is conducted regularly by Statistics Canada to provide data used in preparing the National Accounts. Data derived from this survey are also used by the Department of Finance for calculating equalization payment entitlements. To improve its usefulness to the National Accounts, this survey was recently modified by Statistics Canada to remove certain suspected biases. The new and old surveys were run in parallel for the year 1974. A comparison showed the level of bias by province for the old survey to range from +1.4% to -9.0%, the national average being -4.0%.

At our request, the Department of Finance estimated the impact that the provincial retail trade estimation biases would have on equalization payments. At the time of the review, the most recent year for which final payments had been calculated was fiscal year 1972. The data in the original 1972 survey was adjusted for the biases uncovered by the improved survey and the entitlements were re-calculated. The resulting differences in the provincial entitlements ranged from an increase of \$2.6 million to a decrease of \$17.8 million with a total net decrease in entitlement of \$19 million. It should be noted that the improvement in the retail trade data came about only because of a concern to improve calculations for the National Accounts.

Some of the other 39 major data sources used in computing equalization payments also appear to contain significant biases, but the impact on the level and distribution of payments has not been determined. There is no effective system for making this determination, nor for calculating the benefit/cost of reducing or eliminating the biases.

**10.18 Extended benefit payments to Unemployment Insurance claimants.** The 1971 Unemployment Insurance Act required that local unemployment rates reported in the Statistics Canada Labour Force Survey be used to calculate extended benefit payments, even though the Survey was not designed for this purpose. The Labour Force Survey provides estimates of the unemployment rate at the national, provincial and local levels, but not with the precision desirable for determining extended benefit payments on an equitable basis at the Unemployment Insurance regional level.



As an example, Unemployment Insurance Region No. 12 at the time of our review included the localities Gaspésie-Bas St. Laurent, Saguenay-Lac St. Jean, Québec, Trois Rivières, and the Outaouais. During March 1976 the average unemployment rate for the localities within Region No. 12 was 11.2% with the individual rates varying from 7% in the Outaouais to 22.3% in the Gaspésie. As a result of using the region's average rate, claimants in lower unemployment areas, the Outaouais and Québec, were eligible to receive extended benefits for a longer period than they would have been entitled to if the local unemployment rate had been used.

The combination of recent changes in the Labour Force Survey and in Unemployment Insurance legislation has helped resolve the kind of problem found in Region 12. The regions for extended benefit payments are now smaller and more homogeneous.

There still remains a problem of inequity arising from the accuracy of estimates of unemployment and their use in payment of extended benefits. Under the present legislation, each .5% over a basic 4% rate of unemployment calls for an increase of two weeks in the period of extended benefits. The estimates of the local rates are designed to be within  $\pm 30\%$  of the true rate 95% of the time. The Commission intends to increase precision by using a three-month, moving average to determine the local rate but the resulting precision will still be no better than  $\pm 18\%$ . This means that a region with a true unemployment rate of 10% would have a reported rate somewhere between 8.2% and 11.8%. As a result, the maximum extended benefit period would be determined to be anywhere between 18 and 32 weeks when it should be determined at 24 weeks. The precision of local estimates could be improved by an increase in the sample size of the Labour Force Survey. However, no determination has been made of the benefit/cost to the Unemployment Insurance Program of a sample size increase.

**10.19 Population estimates.** Population statistics are used extensively in determining government expenditures. Many major expenditures are based on statistics such as total provincial population or the number of people over or under a specific age.

In most instances, legislation specifies the particular method or data source to be used in deriving the statistics. However, there is no assurance that the most appropriate method or source is specified in the legislation. Even in cases where the most appropriate method has been specified, it is often prescribed so narrowly that technological improvements are effectively excluded from consideration and the associated benefits must be foregone. In other instances a choice of methods is permitted but without the requirement to demonstrate the superior accuracy of the one chosen.

As a consequence legislative intent could be frustrated because of the uncertainty surrounding the selection of the most appropriate data. Evidence of this is the dispute between Canada and the provinces which has arisen over the amounts payable under such programs as Medical Care and Hospital Insurance.



The wishes of Parliament might be better served by using only Statistics Canada official population estimates for population based federal-provincial financial transactions.

**10.20 The Consumer Price Index.** The Consumer Price Index is used extensively to adjust expenditures and revenues for cost-of-living changes. For example, pensions, old age security payments, family allowances and income taxes are so adjusted. Many of these uses are required by legislation and regulations.

The Consumer Price Index was specifically designed for use in the National Accounts. It was not designed to measure changes in the cost-of-living. In fact, in 1949 the Cost-of-Living Index was renamed the Consumer Price Index to emphasize that it does not necessarily measure changes in the cost-of-living.

The Consumer Price Index is used by departments in a manner for which it is not intended. There is a need to examine its appropriateness for these applications.

**10.21 Observation and recommendation.** There is a significant use of statistical data in expenditure applications for which the data have not been designed. Evidence indicates a need to evaluate the appropriateness of the data for these secondary uses.

*The Treasury Board Secretariat should initiate a comprehensive review of the uses of statistical data in determining government expenditures. The review's outputs should include an inventory and assessment of statistical data used for these purposes, particularly data specified by legislation and regulations. This review could form the basis for a policy statement clearly assigning to users and suppliers of statistical data their respective responsibilities for ensuring that only appropriate data are used in determining government expenditures and specifying how needed changes are to be funded. The review might also consider proposals for amending legislation provisions relating to uses of statistical data to ensure that they are in harmony with Parliament's objectives.*

## **TRAVEL AND RELOCATION EXPENSES**

### **Travel and Relocation Expenses in Departments**

**11.1** During 1975-76 the Audit Office, through its Special Audits and Inquiries Branch, began a study of travel and relocation expenses.

This study was directed towards assessing: the extent to which departments and agencies comply with Treasury Board regulations, directives, and guidelines; the effectiveness of Treasury Board and departmental controls in ensuring efficient use of funds allocated to travel and relocation; and whether these expenses are adequately disclosed in the Public Accounts.

We examined the records of six major departments, which together account for about 32% of total Government travel expenses. Although travel expenses are not identified separately in the Public Accounts, they were estimated to exceed \$200 million in 1975-76.

Our findings indicated that the Treasury Board regulations, directives, and guidelines were either inconsistently applied or substantially ignored and there appeared to be little or no effort to ensure the most efficient use of travel funds. The results of this study were published in my 1976 Report and included the following recommendations:

- Each trip should be authorized in writing in advance to ensure that all travel is justified, to control travel expenditures effectively and to keep such expenditures to a minimum. Any deviations from either the Travel Directive or pre-authorization should be satisfactorily explained and approved in writing.
- The scope and extent of the work to be carried out by pre-audit staff should be standardized for all government departments and the Treasury Board should define and establish by regulation standard documents and written information required to support all claims and any deviations from the Travel Directive.
- A system should be developed within departments for reporting to top-level financial management any instances of non-adherence to regulations and procedures governing travel.
- Departments should be required to maintain a system of internal control over billings received from the Central Travel Service to ensure that tickets purchased and charged are for transportation on authorized trips only and that no extra costs are incurred for personal trips or stopovers.

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- Claims should be submitted for all trips to ensure that trips were properly authorized, and ticket duplicates or stubs for commercial transportation should be attached to claims so that it can be readily determined whether extra costs were incurred because of unauthorized stopovers or vacations taken in conjunction with a trip, and whether recovery was made if part of a trip was cancelled.
- The Travel Directive should indicate how mileage claims are to be verified and claims for mileage between major centres should be identified separately from those within a metropolitan area.
- If a request in writing for an employee to use his own car is not obtained before the trip, he should be reimbursed at the rate payable when the employee requests permission to use his car, with the cost restricted to that of a comparable trip by commercial carrier. When the employer authorizes the use of an employee-driven vehicle and the destination is more than 200 miles away, the reason for its use should be indicated on the trip authorization.
- Expenses should be limited to costs of commercial transportation, where adequate commercial transportation is available and convenient, and an employee who wishes to use another means of travel such as his own vehicle should be required to take annual leave for any excess travel time involved.
- Departments should be required to submit to the Treasury Board on or before April 1 of each year the number of employees whose estimated travel on government business in their privately-owned vehicles will exceed 8,000 miles, indicating why the purchase of a government vehicle is not warranted.
- In addition, a report showing the number of employees who have used their privately-owned vehicles for more than 8,000 miles in a year on government travel and the actual cost of the use of the vehicle should be submitted to the Treasury Board within 60 days after the end of each fiscal year.
- To control rental of vehicles effectively, trip pre-authorizations should state reasons for car rental, including any justification for rentals of full-sized rather than more economical automobiles.
- Any claims for meals exceeding the amounts specified in the Travel Directive should be supported by receipts with the circumstances necessitating excess costs indicated.
- The Treasury Board should specify in the Travel Directive the hours limiting meal periods or require every department and agency to establish meal periods applicable to its employees in

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travel status. Times of departure and arrival should be shown for the beginning and end of a trip and for stopover points en route, supported by ticket duplicates or stubs when travel is by commercial carrier.

- The Travel Directive should be amended to make it mandatory for the employer to arrange for accommodation obtainable at weekly or monthly rates for employees required to spend more than two months in travel status at one location, or give prior written approval to arrangements made by the employee.
- Departments should be required to have on file written authorization for relocation and the documentation of all expenses incurred, including the prescribed forms used in calculating non-accountable allowances and billings for shipment of household effects. In the case of an appointee, the types of expenditures payable should be clearly specified and authorized.
- Overdue trip advances and unwarranted and excessive standing advances should be recovered through deductions from pay if requests for recovery are ignored beyond a 30-day period.
- Procedures should be implemented to ensure that employees refund any advances before they proceed on extended periods of leave or language training and that the amount of any outstanding accountable advance is recovered before the issue of final pay cheques when employees are struck off strength, resign or die.
- Claims for hospitality should not be accepted unless circumstances, type of function and number and duties of persons entertained are clearly indicated and the approval of the Deputy Minister has been obtained where required.
- Charge cards should be restricted to persons required to travel on short notice or where Central Travel Service and normal cheque-issuing facilities are not available. Internal control procedures should be established to prevent the use of government issued charge cards for private purposes.

**11.2** In 1976-77, we examined travel and relocation expenses in another 19 government departments. Management letters or reports were issued to each department audited and findings were discussed with departmental officials. The 1976-77 audit disclosed weaknesses similar to those reported in the previous year.

**11.3** On April 1, 1977, the Treasury Board issued a revised Travel Directive and revised provisions in the Relocation Directive incorporating the major recommendations and most of the minor changes suggested.



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Implementation of these new Directives and related administrative controls should ensure more efficient control of funds allocated to travel and relocation.

### **Scope of 1976-77 Study of Travel and Relocation Expenses**

**11.4** In addition to extending our study of travel and relocation expenses initiated in 1975-76 to 19 other departments, in 1976-77 we also completed examinations of: travel and relocation expenses in eight Crown corporations; foreign travel expenses; and the operations of the Central Travel Service. The original purpose of the study was broadened to determine:

- the extent to which Crown corporations comply with Treasury Board and their own regulations, directives, and guidelines;
- the effectiveness of Treasury Board, departmental and Crown corporation controls in ensuring efficient use of Crown corporation funds allocated to travel and relocation;
- the extent of adherence to Foreign Service Directives and to Treasury Board Travel Directives in travel to foreign countries; and
- the adequacy of financial controls relating to the activities of the Central Travel Service.

Detailed observations and recommendations resulting from our examinations have been reported to the departments, agencies and Crown corporations concerned and to the Treasury Board. The findings are summarized in the pages that follow.

### **Travel and Relocation Expenses in Crown Corporations**

**11.5** Travel and relocation expenses were examined in eight Crown corporations of which the Auditor General is the auditor. Seven of these entities have issued their own travel regulations and one has adopted the Treasury Board Travel and Relocation Directives. Our study focused on the adequacy of corporation regulations and the extent of adherence to them or to Treasury Board directives where applicable.

**11.6 Advances.** A review of outstanding travel advance accounts indicated that these records do not provide adequate control over accountability for advances. Findings included errors in coding and posting, inaccuracies in recorded balances, and delays in adjusting incorrect accounts.

There was also inadequate control over settlement of advances. In some instances, unexpended advances were not refunded but were carried forward for application to subsequent trips; in others, there were substantial delays in submitting claims and in paying refunds owed by employees. At one corporate location, the percentage of accounts more than 90 days overdue increased to 35% from 4% in an eight-month period, indicating a significant lapse in financial control.



*To ensure proper and timely accounting for travel advances, Crown corporations should strengthen procedures for recording and monitoring and should enforce timely settlement.*

**11.7      Transportation expenses.** Corporation regulations usually specify air travel as the accepted mode of transportation, unless time and money may be saved by travel by car, rail or other means. Costs payable are the actual expenses incurred; however in a few instances the "equivalent airfare" was paid when an employee travelled by car rather than by air. This practice encourages employees to spend more time travelling than is necessary and results in additional travel costs associated with accommodation and living expenses. In several cases, the use of a private automobile was authorized without adequate consideration of the additional costs involved, resulting in excessive expenditures of time and money. Verification of claims was found to be inadequate. In some cases, payments exceeded actual costs or were made for travel that did not take place.

*Where acceptable commercial transportation is available but an employee elects to use a private vehicle, reimbursement for transportation, meals and accommodation should be limited to the estimated travel cost of the most economical means of commercial transportation. In addition, the employee should be required to take annual leave for excess time spent on travel.*

**11.8      Accommodation and living expenses.** Through its Central Travel Service, the Federal Government negotiates reduced rates for hotel and motel accommodation for employees travelling on government business. Crown corporations often do not take advantage of these rates. In some cases they have negotiated their own rate reductions.

*Crown corporations should investigate the possibility of having government accommodation rates apply to corporate travel or negotiate comparable rates.*

Treasury Board regulations and those of some Crown corporations vary considerably in allowances for meals and incidentals payable to employees travelling on business. Some Crown corporations pay allowances that are substantially higher than those specified in the Treasury Board Travel Directive. Claims requirements also differ.

*Allowances paid by Crown corporations for meals and incidental expenses should be comparable with those established by the Treasury Board for public servants.*

**11.9      Expenses related to extended travel.** Some Crown corporations do not provide adequate direction on paying costs during extended periods of travel. For example, there is generally no requirement to seek weekly or monthly accommodation rates; incidental expenses are paid throughout extended periods, sometimes at considerable cost; and regulations are vague or non-existent about the employee's return to his residence on weekends.

Controls over extended travel expenditures are generally weak. Regulations, where they exist, are not always adhered to. Management does not review regularly conditions and payments associated with extended travel. In one Crown corporation studied, non-accountable advances for extended travel were paid to contract employees without controls to ensure that trips were actually taken.

*In order to control adequately the costs of extended travel and related weekend travel home, Crown corporations should establish explicit regulations and ensure that they are followed.*

**11.10 Relocation expenses.** In the Crown corporations examined, policies on relocation costs were generally inadequate, resulting in weaknesses in control over such expenditures. Corporate regulations do not always define special circumstances justifying payments to new appointees or the types of costs to be covered. Payments have been made for relocation expenses that were neither authorized nor justified by the employee's circumstances. In addition, delays in relocating employees have resulted in excessive costs for accommodation and living expenses. In one case, an employee was reimbursed for extended travel expenses for a period of almost a year before his relocation was confirmed.

Where regulations exist, they are not always followed. One Crown corporation ignored the provisions of its relocation policy in three out of the four cases examined and paid interim accommodation expenses for a period of up to six months longer than the regulations permitted.

Control over payments for miscellaneous expenses directly associated with a transfer is generally inadequate under existing policies. The amount of allowances payable without supporting vouchers varies considerably between corporations. The nature of the expenses that the allowances are intended to cover is frequently not defined and employees claim and are paid specific incidental expenses in addition to the allowance. Only one corporation sets a limit for incidental expenses.

*Corporation regulations should clearly define policy regarding relocation costs and the policy should be consistently applied. The type of expenses admissible for reimbursement and the amounts of special allowances should be comparable to those established by the Treasury Board for public servants.*

**11.11 Internal financial controls.** Several weaknesses were identified in the internal financial controls over travel and relocation expenditures. Documentation of regulations, particularly those governing relocation, and their application were generally poor. In some cases, regulations were interpreted locally without reference to, and in a way that conflicted with the intent of corporate headquarters. Deviations from regulations were accepted without written explanation, despite the fact that in 1971 the Standing Committee on Public Accounts recommended such documentation. There is a clear need to remedy this situation.

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Other areas of concern include:

- *Authorization of expenditures.* Written pre-authorization for travel is not mandatory in all Crown corporations. Where required, authorization forms are frequently inadequate or not properly completed. In some Crown corporations, not all travel has to be authorized by an official of higher rank than the employee making the trip.
- *Audit of claims.* In general, travel sections in financial services are not performing an effective audit of claims. Also, claim forms are not sufficiently detailed or are not completed in such a manner as to ensure financial control. For example, cases were noted in which required supporting documentation was not submitted for claims of transportation, accommodation and other expenses.
- *Delegation of signing authority.* In one Crown corporation, a revised system of signing authority, which was to take effect in October 1975, had not been implemented one year later. Most regions still followed the system established in 1962. Moreover, the review disclosed discrepancies between the regional delegation of authority and corporate policy.
- *Segregation of duties.* In one Crown corporation, an improper segregation of duties exists in the travel section in financial services, resulting in the combination of commitment, spending, and payment authorities in one position.

*Crown corporations should strengthen systems of financial control over travel and relocation expenditures.*

### **Foreign Travel**

**11.12** Our study was also extended in 1976-77 to an examination of compliance with the travel and relocation provisions of the Foreign Service Directives.

**11.13** **Advances and submission of claims.** Departments issue advances to employees undertaking foreign travel to cover the cost of transportation, accommodation and meals. In addition, vacation travel assistance is provided in accordance with the Foreign Service Directives to employees at certain posts where living conditions are considered difficult, on condition that at least six months have elapsed since the employee's arrival at the post and another six months of duty remain after the expiration of the period of vacation leave. This assistance takes the form of a transportation ticket purchased on behalf of the employee. The employee is subsequently required to provide evidence that the ticket has been used as intended.

In a number of instances, there were considerable delays (five or six months) in the use of tickets issued for leave or in the employee's accounting for the



advance. In two cases, vacation travel assistance was granted to persons who did not meet one or both of the conditions for such assistance, notwithstanding that appropriate departmental audit observations were raised.

Delays in submitting claims were prevalent. In a few cases, there was a lapse of six to ten months between the time expenses were incurred and the date of the claim.

*Departments should ensure that transportation tickets are provided a reasonable number of days prior to planned departure date, and that travel claims are submitted for each trip within 15 days after completion of the trip as required by the Foreign Service Directives.*

**11.14 Accommodation and meals.** There were instances of lengthy stays in commercial accommodation at regular daily rates and for hotel accommodation at rates in excess of government-negotiated daily rates. There is no requirement in the Foreign Service Directives that self-contained accommodation available at weekly or monthly rates be obtained for employees in travel status for extended periods.

Although the Foreign Service Directives require that, on relocation, employees are to claim actual and reasonable expenses for meals, the practice is to pay the daily meal rate authorized by the Treasury Board Travel Directive to employees in removal status in Canada and the United States.

*The Foreign Service Directives should be amended to require departments to assume responsibility for making arrangements, wherever possible, for accommodation during periods of extended travel at facilities offering self-contained units at weekly or monthly rates. For meal expenses incurred in Canada and the United States on relocation, reimbursement should be in accordance with the Treasury Board Relocation Directive in lieu of the Foreign Service Directives.*

**11.15 Substantiation of claims.** Some of the files examined were found to be incomplete in that they lacked documentation in support of claims, proper authorization of expenditures, or explanations of unusual items or payments.

*All departments should ensure that supporting vouchers are submitted for expenses claimed, proper authorization has been obtained and explanations have been provided for any unusual items or payments.*

**11.16 Composite allowances.** It has long been the practice of the Department of External Affairs to establish and pay composite allowances to members of Canadian delegations to international conferences and meetings. According to the Treasury Board Travel Directive, the Department has the authority to pay actual and reasonable expenses but not to establish special composite allowances.

*The Department should discontinue the practice of establishing and paying special composite allowances unless prior approval is obtained from the Treasury Board.*

### **Central Travel Service**

**11.17** We also reviewed and evaluated financial management and control of the functions and operations of the Central Travel Service, an agency organized to arrange transportation and accommodation for government departments and agencies, to negotiate special rates for government employees, and to verify and pay government transportation accounts.

The review focused on the use of the Service by departments and agencies, the economies achieved in travel expenditures, the effectiveness of departmental and agency controls over transportation billings, and the extent to which its operations satisfy financial management and control requirements. A number of weaknesses were found, particularly in the area of financial control.

**11.18 Reservation and ticket services.** The Central Travel Service is responsible for providing reservation and ticket services for government employees. It has arranged with the two major Canadian airlines, Air Canada and Canadian Pacific for them to make transportation, accommodation and car rental reservations. The present arrangement has evolved through ad hoc negotiations. In the absence of a formal agreement between the Central Travel Service and the airline companies, the agency has little effective control over the quality of service.

*The arrangements with the two major airline companies for providing reservation and ticket services for government employees should be formalized as soon as possible.*

**11.19 Billing systems and procedures.** Under existing arrangements, the airline companies submit monthly accounts to the Service, which pays the airlines directly then rebills departments and agencies for appropriate amounts. These procedures create substantial problems of financial control for both the Service and customer departments and agencies.

Within the Service, there is no effective control over payments at the time they are made to the airline companies since departments and agencies must verify the billings. In effect, airline accounts are paid when submitted, and the amounts charged are verified later when Service customers receive the agency's invoices. Departments and agencies do not systematically control use of travel order numbers, which are assigned to customers of the Service, nor do they always verify the agency's billings properly before approval for payment. Departmental control procedures were found to be unsatisfactory and below acceptable accounting standards.



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Considerable difficulty is encountered in collecting accounts receivable from customer departments and agencies. Some departments consistently make late payments; others do not pay the full amount of the invoice where a credit or adjustment is due but submit payment for the reduced amount. The first practice is contrary to financial control provisions of the Financial Administration Act in that departments and agencies are carrying forward travel costs into a fiscal period subsequent to the one in which they were incurred and for which funds were appropriated. In the second case, Treasury Board travel regulations are contravened, and an additional burden is imposed on the accounting staff of the Central Travel Service since it must reconcile the payments with invoices issued and credits owing.

An examination of receivables outstanding indicated that collection procedures are not totally effective.

To some extent, existing billing systems and procedures defeat one of the main purposes of having a central travel facility. Staff in customer organizations are in fact heavily involved in initiating reservations, controlling travel order numbers, verifying Central Travel Service billings, relating billings to employees' travel claims, and following up credits and adjustments.

Our examination revealed that control over authorized use of transportation services is inadequate, both at the point at which reservations are made and within departments and agencies. Because of weaknesses in verification procedures, employees could make bookings through the Central Travel Service for tickets intended for personal use and have tickets paid for by the department.

Although the Treasury Board requires that all Federal Government departments and agencies use the facilities of the Central Travel Service, some regional offices choose to make their own travel arrangements. By so doing, they avoid paying the service charge imposed on customers of the agency and also relieve themselves of the cost and burden of maintaining a separate accounting system to control monthly billings received from the Central Travel Service.

*Consideration should be given to having employees pay for transportation directly out of travel advances. Accounting and control procedures then would be greatly simplified and their effectiveness improved. Such a system would eliminate the need for rebilling of travel accounts and facilitate verification of transportation expenditures.*

## GRANTS AND CONTRIBUTIONS

### Introduction

**12.1** The Grants and Contributions Study seeks to evaluate the adequacy of financial management and control over grants and contributions in all departments and agencies of Government for which the Auditor General has audit responsibility.

The study work program provides for an examination of the following aspects of grants and contributions procedures:

- legislation and Treasury Board regulations, policies, directives, and guidelines and the extent of compliance with them;
- the adequacy of internal control systems and procedures;
- a sample of cases to establish whether adequate control procedures are adhered to;
- the type and extent of reporting structure;
- the extent of monitoring and of auditing by internal, operational, or independent audit groups; and
- the extent of a functional or line responsibility for the activities within departments and agencies.

This comprehensive review, planned on a multi-year basis, will eventually cover grant and contribution activities included in approximately 80 programs in all departments and agencies. From 1977-78, the review will be integrated with regular audit operations.

In this Part we present a general report on multi-departmental or government-wide issues that have emerged in the course of our review of 20 departments, agencies, and Crown corporations over the past two years. This is followed by condensed reports that highlight points of interest and observations on grant and contribution programs audited during 1976-77 in six departments and agencies.

Detailed reports were issued to each department and agency outlining our observations and recommendations. The reports were discussed with senior officials and in many cases corrective action was taken.

## **Government-Wide Issues Respecting Grants and Contributions**

**12.2** During our two-year study we noted serious control deficiencies in commitment, spending and payment procedures, and significant weaknesses in other areas. In particular, the requirements for the exercise of spending and payment authorities for grants and contributions have either been completely ignored by departments and agencies or only partially met. Also, there is a lack of accountability by recipients of contributions and some departments are not enforcing proper procedures to ensure that accountability requirements, where they exist, are met on a timely basis.

The study revealed widespread inconsistencies in the classification of "grants" and "contributions" and confusion occurs because the terms often are used interchangeably. For certain programs: no criteria have been approved by the Treasury Board; some contributions are not supported by an official agreement; and enforcement of the terms and conditions of agreements which do exist is inadequate. In addition, to prevent lapsing of appropriations, some departments made advances at the end of the fiscal year in excess of the immediate requirements of recipients.

Parliament approves substantial funds each year for grants and contributions. For the fiscal year 1975-76 when this study was started, expenditures for grants, contributions and other transfer payments amounted to \$18,600 million. Exclusion of transfer payments to the provinces for health care and other fiscal arrangements and of payments for unemployment insurance and income security left \$7,300 million for grants and contributions to provinces, organizations and individuals. Main Estimates for the fiscal year 1977-78 raised this last amount to \$7,700 million, \$2,500 million for grants and \$5,200 million for contributions. The magnitude of these amounts emphasizes the need for strict internal financial control, sound administrative procedures, and comprehensive directives and guidelines on the management of funds.

Since 1971, Treasury Board Circular 1971-18 has governed the payment of grants and contributions. We have been informed that a new directive is being drafted to define grants and contributions better, to implement precise guidelines governing each category and to ensure improved financial control. We hope that this Part, outlining the general weaknesses identified during the two-year study and our related recommendations, will hasten corrective action to bring about better control.

**12.3 Characteristics of grants.** Grants are outright payments which are not considered to be accountable. Even when applied to capital financing or other specific projects, no audit is required to ensure that funds are used for the purposes for which they were intended.

Appropriations for grants are listed in the Main Estimates, and recipients are identified by name, where practicable, with the amount to be awarded. In some instances, grants are grouped by categories of recipients only, thereby limiting disclosure in the Estimates and Public Accounts.

*The grouping of grants by categories of recipients should be restricted to small payments made to groups of individuals or to organizations meeting specific legislative requirements or other eligibility criteria; these criteria should be clearly defined by the Treasury Board in the planned directive on grants and contributions.*

Treasury Board Circular 1971-18 provides that the amounts for grants included in the Estimates "may not be increased or redirected to other than the named recipient or class of recipients without authority of Parliament."

A substantial number of grants examined in the course of the study actually were, in our view, contributions and could have been classified and accounted for as such.

**12.4 Characteristics of contributions.** Contributions are payments which are subject to audit and made in accordance with conditions set by a department or agency, approved by the Treasury Board and accepted by the recipient. Where contributions are given under a department's program, they are generally grouped in the Main Estimates by category of recipients.

The wording used in the Estimates to describe contributions is often too general to inform Members of Parliament and others of the particular purposes for which funds are requested. In some instances, the same wording is used for programs with different objectives; and in some departments, programs have such broad characteristics that any project could comply with the criteria. Applicants might obtain contributions for a specific purpose through two different programs in one department or from two different departments. Since departments do not usually produce lists of contribution recipients, there is a risk of duplicate funding of projects or organizations.

*Descriptive wordings in the Estimates should clearly identify all the different contribution programs within each department. A list of recipients of contributions should be available in each department and measures taken to prevent duplicate funding.*

**12.5 Confusion between grants and contributions.** The study revealed widespread inconsistencies in the classification of grants and contributions. There were frequent changes in classification of items in these two categories, usually from contributions to grants.

The terms "grants" and "contributions" are used interchangeably in descriptions of projects, project evaluations, and letters notifying recipients of awards, and also in submissions to the Treasury Board and regulations approved by Order in Council. The confusion is similarly apparent in the use of the word "grants" in titles given to some contribution programs. Such inconsistencies may mislead the donor department and the recipient, and impede the implementation of effective controls.



*A uniform system of classification should be adopted following a review of grants and contributions in the Estimates and a special effort made to minimize the number of grants.*

**12.6 Capital grants and contributions.** Projects of a capital nature are funded through both grants and contributions and may involve payments of several million dollars.

In some instances of capital grant funding, conditions of accountability are imposed upon recipients. Although this practice is appropriate in the interest of financial control, grants, as defined in the Main Estimates are not subject to accountability.

*Financial assistance of a capital nature should be classified as contributions and administered as such, including the requirements for the submission of financial statements and reports on the use of funds.*

Deficiencies were noted in the information submitted in support of requests for payment of some capital projects financed by contributions. Also, in certain cases, payments were made in amounts larger than originally approved without validation of declared increases in costs.

*Each payment for contributions of a capital nature should be supported by a statement of expenditures incurred to date. Requests for additional contributions to a project should be accompanied by details of increased costs and sufficient other information to substantiate the increase.*

In certain instances applicants for capital project funding were not required to provide evidence that they had obtained competitive bids before construction. Furthermore, in evaluating proposals expert advice was not always sought on technical aspects of capital projects.

*Technical expertise should be sought from the Department of Public Works before approval of capital project contributions.*

**12.7 Program criteria, terms and conditions.** For grants and contributions that may be awarded to classes or groups of recipients, the department or agency is required to obtain Treasury Board approval of terms and conditions of awards and payments. For certain programs, no criteria have been approved, and program officers use terms and conditions applicable to similar programs. Where programs are subject to the provisions of an Order in Council, these provisions are generally too broad to permit adequate control of expenditures.

*Detailed terms and conditions should be submitted to and approved by the Treasury Board for all programs, as required by Treasury Board Circular 1971-18 on grants and contributions.*

**12.8 Contribution applications and agreements.** The systems that have been established for analysis, evaluation, and approval of applications for contributions are generally well defined. However, there is a general lack of adequate documentation of decisions made during these processes to ensure compliance with established procedures.

Agreements governing approved contributions are deficient in several respects. In some cases, the agreement is not explicit and important conditions are omitted. Certain contributions are not supported by an official agreement. Where a notice or letter of approval is issued in lieu of an agreement, it frequently fails to specify all the conditions under which the award is made; recipients often are not required to countersign the document to indicate acceptance.

*An agreement outlining terms and conditions as approved by the Treasury Board should always be signed by both parties for every contribution approved by a department.*

Enforcement of the terms and conditions of agreements also is inadequate. Many departments and agencies make payments on request regardless of whether or not the recipient has met the conditions of the agreement.

*No payment should be made or contribution renewed unless the recipient has complied with all requirements of the agreement.*

**12.9 Federal-provincial agreements.** In several departments and agencies, there are federal-provincial agreements applying to grants and contributions. A number of weaknesses were identified in existing agreements.

Some agreements are out of date, imprecise, or incomplete for such matters as audit responsibilities and the maximum amount of federal contributions. In some cases, agreements are signed under programs for which terms and conditions have not been approved by the Treasury Board.

*To assist departments and agencies to administer shared-cost programs effectively, departments should have terms and conditions as well as agreement forms approved by the Treasury Board for contributions paid under federal-provincial agreements.*

Provinces are frequently not required to submit claims for payment by a specific date; consequently, claims are received at irregular intervals and sometimes two or three years after expenditures are incurred. Payment in one fiscal year of claims covering costs incurred by the provinces for two years or more can distort the costs of departmental programs reported in the Public Accounts. Where interim payments are made to the provinces based on estimated expenditures, delays in submitting actual cost statements can lead to temporary financing in excess of provincial requirements and further delays in the payment of refunds to the Federal Government.

*Interim claims should be submitted by the provinces by March 31, followed as soon as possible thereafter by final claims.*

The terms and conditions of agreements are not always met. For example, where claims require certification by the appropriate provincial authority, they are often submitted without an audit certificate validating reported expenditures.

*Terms and conditions outlined in federal-provincial agreements should be adhered to.*

**12.10 Monitoring and evaluation.** Procedures for monitoring and evaluating expenditures on grants and contributions exist in most departments and agencies, but they are not always applied in a thorough and consistent manner. For certain programs, the lack of effective monitoring controls or the absence of documented results of the evaluation process can lead to continued support of projects that are being improperly managed.

*Departments should ensure that adequate monitoring procedures are performed and documented to ascertain that the objectives of the program are being met.*

**12.11 Internal financial controls.** The study disclosed serious weaknesses in internal financial controls in most organizations examined. In general, departments and agencies did not delegate financial signing authority for grants and contributions, as required under different sections of the Financial Administration Act, or hold recipients accountable for the use of funds. Specific areas of concern included the following:

- *Commitment authority.* Commitment control under Section 25 of the Financial Administration Act was not adequately or consistently applied in most departments and agencies. In many instances, the requirement for certification of documents by authorized signature before a commitment is made was not complied with, and occasionally commitment signing authority had not been delegated.

*Specific delegation charts of financial signing authorities should be completed and adhered to and commitment controls should be enforced.*

- *Spending and payment authorities.* The requirements for the exercise of spending and payment authorities have either been completely ignored or only partially met. In certain departments and agencies, signing authorities were exercised without prior delegation. Cheque requisitions were frequently signed when there was no specimen signature on file to verify the authenticity of signing authority, or spending and payment authorities were exercised by the same person. Specimen signature cards, when they were available, were often incomplete.

*Spending and payment authorities should be exercised only when payments are in accordance with terms and conditions set out in the agreement and after evidence that account verification procedures have been thoroughly applied.*

- *Payments, advances and account verification.* Grants are usually paid in one or more instalments. Contribution payments most often take the form of a series of advances followed by a final adjusted payment.

It was observed that agreements normally contained conditions governing periodic advance payments, but these conditions were not always met. Periodic advances were made without satisfactory accounting by recipients for previous advances and without adherence to other terms and conditions.

To prevent lapsing of appropriations, one department made advances at the end of the fiscal year in excess of the immediate requirements of recipients, or for projects to be carried out some months later in the following year. In one other case, substantial funds were paid into a trust account for a project that was deferred. Expenditures of this kind were not disclosed as advances in the Public Accounts.

Statements of costs from recipients on which contribution payments were made did not always provide detail sufficient to give a proper accounting for the use of funds. Departments and agencies also did not carry out adequate account verification procedures before making payments.

*Departments should keep adequate control over advance payments, require timely accounting from the recipients, and report in the Public Accounts on advances which are in excess of amounts set by terms and conditions approved by the Treasury Board and have not been accounted for at the end of the fiscal year.*

- *Audits.* All expenditures incurred by the recipient of a contribution are subject to audit to ensure compliance with the terms and conditions of the contribution agreement. It was found that a very small percentage of contribution payments were audited on site by government audit teams; and often the agreements did not make provision for such an audit. Where audit reports were received by departments and agencies, procedures were lacking to ensure that appropriate follow-up action was taken on auditors' recommendations.

In most cases, departments and agencies asked recipients to provide statements of expenditures or certified financial statements in support of requests for payment. Payments were frequently made without a thorough analysis of the financial information that was supplied. As noted above, many financial statements examined in the study did not adequately account for costs incurred in relation to contribution payments.



*Provisions for auditing contributions should be included in every agreement, audits should be performed on a timely basis and financial or audit reports should be analysed closely and acted on promptly.*

## **Energy, Mines and Resources**

**12.12** Our examination in the Department of Energy, Mines and Resources covered grants and contributions paid in 1975 and 1976 in all eight sectors and branches. Departmental expenditures for grants and contributions are related to two major programs: Mineral and Energy Resources and Earth Sciences. Although these expenditures are not large, there are grounds for concern over the way they are managed. The two main weaknesses are in administrative procedures and documentation.

**12.13 Disclosure in the Estimates and Public Accounts.** Supplementary Estimates in December 1975 included \$750,000 for grants and contributions for a joint federal-provincial study. This appropriation was reduced in March 1976 by \$500,000, which was transferred within the same Vote to other expenditures with Treasury Board approval. The Public Accounts for 1975-76 did not disclose this transfer, nor did they reveal other transfers that served to increase appropriations for certain other contributions.

In the interest of full and accurate disclosure, all approved transfers of allotments within the same Vote should be recorded in the Public Accounts.

The Department's Energy Policy Sector awards grants to two research institutes. Appropriations and expenditures for a grant amounting to \$125,000 to one research institute are identified specifically in the Public Accounts, but those directed to another institute amounting to \$325,000 are included in the general category of "grants in aid of energy resources research".

Grants to research institutes should be disclosed separately in both the Estimates and the Public Accounts.

**12.14 Grant to one research institute.** In 1974, the Department undertook to provide \$625,000, payable in instalments of \$125,000 annually over a five-year period, in support of research at a university institute. This amount was to be matched by the province, and an additional \$500,000, payable in annual instalments of \$100,000, was to be contributed by a private association. All funds received were to be held in trust and regular audit reports provided to all three parties to the agreement.

The Department made two payments of \$125,000 each in March 1975 and March 1976 but received no audit report in either year. Subsequently, it was learned that the institute did not begin operations until November 1, 1976, and expenditures had not been made before that date. The university has reported that the \$250,000 paid by the Department has been deposited in a trust account for the institute, but there has been no confirmation of the receipt of annual

payments from the other two parties. This information should be obtained, supported by an audit report, and the Department should consider withholding future payments until the funds now on deposit have been spent.

Grant payments should not be made unless the fundamental objectives leading to the award of the grant still exist and established conditions are adhered to.

**12.15 Approval of grants, contributions and lack of agreements.** The Department funds extramural research and development projects through a program of research agreements. As at June 1976, awards made under this program for 1976-77 totalled \$1.06 million. Documentation of review and approval decisions was found to be inadequate. There are no formal minutes of the departmental Grants Review Committee which evaluates the recommendations of the sector and branch Appraisal Committees. Furthermore these recommendations are not formally signed or approved by the appropriate directors general; there are no documents supporting the approval of grants by the Review Committee. Action has now been taken to correct these deficiencies.

An agreement specifying the objectives of a project and the obligations of the participating parties is usually required for a contribution. Since 1974, the Department has been making contributions to a project for which no formal agreement exists. Assurance has been given that any future commitment of funds to the project will be supported by a signed agreement between the parties.

**12.16 Monitoring and evaluation of projects.** Most assistance agreements provide for monitoring and evaluation by the parties -- for example, through progress reports, consultants studies, and other material. Furthermore, one of the Treasury Board conditions for expenditures on contributions is that payment be subject to an evaluation of project effectiveness in relation to departmental objectives. The absence of a formal agreement for one project precluded either effective monitoring of its progress or evaluation of its results. In certain instances, agreements do exist but they include no clear statement of objectives or they fail to assign responsibility for monitoring and evaluation procedures.

Several other instances were found where monitoring and evaluation procedures were inadequate. One recurring weakness was the lack of formal documentation of progress on a project, such as the maintenance of a control sheet for recording the completion of various stages of work and the production of periodic reports. In one case, the agreement provided for annual progress reports, but there was no evidence that this requirement was met in the project's first three years. On another four-year federal-provincial project, responsibility for evaluation was assigned to the provincial representatives; although the project was completed about a year ago, an evaluation report has not been submitted.

Proper monitoring and evaluation of a project's evolution and results should be made on a timely basis and the reports thereof should be available on file.

**12.17 Substantiation of claims for payment.** On a number of occasions departmental personnel have exercised payment authority for project expenditure claims not supported by adequate documentation. In two instances, journal vouchers prepared by another department were accepted as sufficient validation. Payment of one contribution was made without reference either to an audit or to a statement in support of the claim by the provincial authority participating in the project, and the cheque was issued before a statement of disbursements on the project was received. The Department has requested a refund of the resulting overpayment, which has now been outstanding for more than a year.

**12.18 Internal financial controls.** A number of inadequacies were found in the Department's system of internal financial controls, particularly those relating to spending and payment authorities. In one instance, spending authority was improperly assumed. In several instances, files of specimen signature cards were found to be incomplete or inaccurate and cancelled cards were not always retained in the appropriate file.

## **Employment and Immigration**

**12.19** In the Department of Employment and Immigration we examined grants and contributions listed under Votes 10, 15, and 20 of the Main Estimates. In 1976-77 the Department's budget for grants and contributions was \$504 million. The study included programs administered by national headquarters, regional offices, provincial job creation branch offices, and Canada Manpower Centres. This examination resulted in our main concern, that the Department, while it has made efforts, has not yet implemented satisfactory financial controls. This situation has resulted from the priority it places on the delivery of its programs and the spending of the funds appropriated for them.

**12.20 Disclosure in the Estimates and Public Accounts.** The Main Estimates for the Department do not identify clearly some programs. For example, the 1976-77 Estimates used the same descriptive wording for three programs listed as contributions in Vote 10 and the 1977-78 Estimates used the same wording for five programs. These general descriptions give little or no assistance to Members of Parliament and others in understanding the purposes for which funds were appropriated.

The descriptive wording in the Estimates should provide proper and meaningful disclosure of the Department's contribution programs.

The Development and Utilization of Manpower Program is provided for under both Votes 5 and 10. Vote 5 covers salaries and other operating and maintenance expenditures, and Vote 10 covers contributions. The Department has included under Vote 5 two programs that resemble or overlap programs funded by contributions: Canada Manpower Training Program purchase of training courses and the Outreach Program. Course purchases involve the purchase of training courses from the provinces and are managed and reviewed in conjunction with the contributions for Canada Manpower Training Program Allowances under Vote 10. However, the Canada Manpower Industrial Training Program, which also involves



the purchase of courses and payment of trainee wages, is included under Vote 10 as contributions. Furthermore, contributions paid under the Training Improvement Program and payments to the provinces for administration expenses for the Canada Manpower Training Program and the Canada Manpower Industrial Training Program are included with purchase of training courses under Vote 5.

Similar comments can be made for the Outreach Program under Vote 5 and Purchase of Services for immigrants listed as a contribution in Vote 15. The Outreach Program has distinct similarities with contributions such as the Local Initiatives and Local Employment Assistance Programs included in Vote 10. Purchase of Services for immigrants has similarities with professional services purchased under contract and shown in Vote 5.

These inconsistencies in allocating costs to operating or contribution Votes make it difficult to identify the true costs of the Department's contribution programs.

The classification of items under operating or contribution Votes should be reviewed to ensure that all items are allocated properly and consistently.

In 1976-77, special Adjustment Assistance contributions were approved for three special refugee movement programs. Although the Treasury Board stipulated that these funds must be identified as separate allotments, the Department grouped the three programs under the allotment for settlement assistance for immigrants.

Assistance for immigrants is planned and approved on very different terms from special assistance for refugees, and contributions for these purposes should be disclosed separately in the Estimates and the Public Accounts.

**12.21 Terms and conditions of programs.** Terms and conditions under which contributions are made to a class of recipients are to be submitted to the Treasury Board for approval. Many required conditions and some major administrative practices of the Department were omitted from the document submitted to the Treasury Board for the Canada Manpower Adjustment Program. Contributions were paid before Treasury Board approval of the terms and conditions of the Community Employment Strategy Program.

A revised set of terms and conditions for the Canada Manpower Adjustment Program should be prepared and submitted to the Treasury Board for review and approval and the Department should implement new programs only after the Treasury Board has approved the applicable terms and conditions.

**12.22 Approval of contributions.** Weaknesses were found in departmental procedures for approving contributions and in adherence to these procedures by program officers. For example, procedures applied to the Canada Manpower Training Program Allowances did not require a review and approval of contributions by an officer other than the Manpower counsellor. For this Program, which involves contributions of approximately \$200 million annually, a Manpower



counsellor evaluates, determines and approves the contribution to be paid. Such approval was required by the Canada Manpower Mobility Program but not obtained in many Canada Manpower Centres.

Contributions paid by Canada Manpower Centres should be approved by a financial officer after they have been authorized by a Manpower counsellor.

**12.23 Contribution agreements.** Under most departmental programs, agreements, letters, or forms are signed by the Department and by recipients of contributions, committing both parties to specified terms and conditions. The study found that where letters were used instead of standard agreements, many important terms and conditions were omitted; and in other cases, there were no signed agreements of any kind to ensure adherence to program requirements.

Contributions should be subject to an agreement detailing the program terms and conditions and it should be signed by the recipient and the Department.

Recipients of contributions are required to meet the terms and conditions of signed agreements before payments are made. Payments under most programs are based on financial progress reports or claims from recipients. In six of the programs examined, certain payments were made for expenses incurred by recipients that did not comply with the terms and conditions of the agreements. In other cases, departmental officers did not comply with procedures for either the timing or the method of making contribution payments.

Contributions should be paid only for expenses that are in accordance with the terms and conditions of each program and of agreements in effect.

In one region, contributions for trainee allowances were paid towards a course that did not meet program criteria and that included trainees at the director or executive director level of social institutions. There was no documentation on file to explain how these individuals benefited from the occupational upgrading or increased earning capacity that the course was to provide.

**12.24 Monitoring and evaluation of programs.** The Department monitors the activities of recipients of contributions under most programs. Projects are usually monitored throughout their duration by on-site visits, to ensure compliance with the terms and conditions of the program and the agreement.

Several weaknesses were found in current monitoring practices and procedures. Visits were not made as frequently as required. Some files contained no monitoring reports. Where reports were filed, they did not adequately document the way recipients complied with departmental terms and conditions, and they reflected inconsistencies in the performance of the monitoring function by program officers. For some programs, checklists were provided for use by officers during monitoring visits, but these were not always used, nor were they standardized for all provinces. In cases where violations of agreements had occurred, they were often detected too late to take corrective action.

The Department should review its monitoring activities to ensure that procedures are adequate and documented.

**12.25 Canada Manpower Centres.** Canada Manpower Centres are responsible for administering three programs that together account for approximately 55% of the Department's contribution expenditures: The Canada Manpower Mobility Program, Canada Manpower Training Program Allowances and Trainee Travel Allowances, and the Immigrant Adjustment Assistance Program. Some of the many weaknesses found in the administration of these programs are the following:

- The master client registration form used in Canada Manpower Centres was not employed effectively for all programs and was found to be impractical for the Immigrant Adjustment Assistance Program. There was no requirement for the form to be signed and dated by a Manpower official and in many instances it was not signed and dated by the client; it did not contain a record of contribution payments and their results; it did not record the client's history of participation in training courses; or it was missing from the file.
- There was no verification required of the number of dependants claimed by the client in any of the programs; and the Canada Manpower Mobility Program clients were not held accountable for the use of some assistance payments.
- In many instances, Canada Manpower Training Allowances overpayments resulted from the Department's policy of assumed attendance under which absence reports were received after the pay period to which they applied.
- Under the Immigrant Adjustment Assistance Program, there is a lack of detailed terms and conditions identifying levels of approved assistance, the duration of assistance, and cases of special need requiring a flexible interpretation and application of the Program.

The chapter in the departmental manual, which is the main reference for administration of the Immigrant Adjustment Assistance program, should be updated to provide additional detail and direction on almost all aspects of procedures now in effect.

**12.26 Internal financial controls.** Serious weaknesses were found in the Department's system of internal financial controls. The following matters were identified as being of particular concern and should be corrected as soon as possible.

- *Commitment authority.* Signing authority under Section 25 of the Financial Administration Act has not been delegated by the Minister for any of the Department's grants and contributions programs; consequently, there is no certification before commitment that funds are available to discharge such commitment. A task force is currently

developing appropriate commitment certification and control procedures for each program.

- *Spending and payment authorities.* Spending authority has not been delegated for several programs. Where it has been delegated, it is exercised inconsistently. Before 1976, spending and payment authorities were frequently exercised by the same officer, contrary to Treasury Board policy. Despite improvements in 1976-77, the study revealed that many responsibility centres are still using incorrect procedures in approving expenditures.

To achieve independent financial control, the Treasury Board requires that payment authority should normally be delegated to financial officers. In many cases, particularly in programs administered by Canada Manpower Centres, it was found that program personnel were exercising payment authority, and there was no independent review by financial officers to ensure that proper procedures were being followed. Division of duties in Canada Manpower Centres generally did not comply with accepted financial control procedures.

Files of specimen signature cards were found to be incomplete or out of date; and in some cases, they did not correspond to the correct delegation of signing authority. Some officers in field offices exercised signing authorities that had not been delegated to them. Other officers exercised authorities in the absence of the incumbent of the delegated position. In some of these cases temporary delegations were assumed by incumbents of positions contrary to Treasury Board policy, were not supported by specimen signature cards or tended to become permanent since effective dates were not documented.

- *Account verification.* Section 5 of the Account Verification and Payment Requisition Regulations requires that certain verification procedures be carried out before an account is paid. For the majority of contribution payments examined, there was inadequate evidence that all the necessary procedures were completed. In some cases, because of a lack of written verification procedures, inconsistent methods were used or no attempt was made to verify accounts before payment.
- *Payments and advances.* Under the terms of some programs, advance payments are made and charged to the current fiscal year, even though the recipient is not likely to incur expenditures until the following fiscal year. In these cases, payment arrangements should be stipulated in terms and conditions consistent with Treasury Board Circular 1971-18. These advance payments should normally cover current financial requirements of funded projects. An example of unauthorized and excessive advance payments is given in paragraph 16.7 of this Report.
- *Financial reporting.* Annual forecasts of expenditures are shown in departmental financial reports issued monthly for all programs in all regions. These forecasts are prepared by both regional offices and



program branches at headquarters. There are frequent discrepancies between forecasts, which are noted in departmental monthly reports but seldom explained. One probable cause is that regional office and headquarters staff use different forecasting methods. Some program branches make little use of the monthly departmental report as they obtain their own information from other sources. Furthermore, the monthly report is prepared from other reports submitted by regional offices and the Department of Supply and Services.

Basic reporting systems should be integrated where appropriate, and all expenditure figures shown in the monthly financial reports should be agreed upon or properly reconciled.

In some Canada Manpower Centres, there was no reconciliation with records in cheque ledgers and document registers of expenditures listed in monthly reports prepared by the Department of Supply and Services. Moreover, there were no required procedures to ensure that such reconciliations would be performed to verify the accuracy of expenditures recorded.

- *Audits.* At the time of the study no external audits had been performed in five contribution programs, and the first audits were under way for a program introduced in 1963. In some cases, audit reports on file recommended adjustments to project costs or improvements in financial control, but there was no evidence that appropriate corrective action had been taken or that follow-up procedures were in effect.

## **Secretary of State**

**12.27** We evaluated the procedures that the Department of the Secretary of State follows in awarding grants and contributions, including those for recommending, approving, monitoring, and final reporting on use of funds. In 1976-77, the Department's budget for grants and contributions was \$742 million. The deficiencies found were reviewed with the Department and action has been initiated to correct some of them.

**12.28 Federal-provincial agreements.** The Department maintains cost-sharing agreements with the provinces under three programs, Citizenship, Education Support, and Bilingualism Development. Weaknesses were identified in the following areas:

- *Terms and conditions.* Under the Citizenship Program there is no Treasury Board Minute approving the terms and conditions of contributions for the Immigrant Orientation Program, as required by Treasury Board Circular No. 1971-18. Existing agreements were signed approximately 20 years ago, and they lack the precision required for effective control of claims and expenditures. Definitions of terms are very broad or inaccurate, and the agreements do not include adequate



detail on such matters as deadlines for submission of claims, audit responsibilities of both parties to the agreement and procedures to be followed where adjustments of claims are required. There is also no specified limit on the amount that participating provinces may claim.

Bilingualism in Education accounts for most of the expenditure under the Department's Bilingualism Development Program and consists of payments to the provinces for programs authorized by Order in Council P.C. 1975-13/360. These programs include support of language instruction at the elementary, secondary and post-secondary levels, travel bursaries for students, capital funding of language training centres, support of teacher training, fellowships, special projects and student exchange.

The Order in Council sets out broad terms and conditions for these programs, but there are no Treasury Board Minutes approving detailed requirements for effective administration. Consequently, there is a weakening of control in the financial management of contributions.

New standard agreements should be prepared and discussed with the provinces where required and detailed terms and conditions for federal-provincial programs should be submitted to the Treasury Board for approval.

- *Claims for payment.* Agreements for the Immigrant Orientation Program fail to specify a maximum dollar limit to the federal contribution or deadlines within which provinces may submit claims. There are substantial delays now in submitting claims.

The Education Support Program is intended to assist provinces in meeting the costs of post-secondary education through a series of payments at regular intervals throughout the year. Each province is required to submit annually an interim return showing estimated operating expenditures for post-secondary educational institutions and a final return stating actual expenditures. The Department makes final adjustment payments only after complete statistical information and audited final returns have been compiled. The final payment for the year 1969-70 was made in 1974-75, and there were instances where activities for 1970-71 to 1975-76 had not been finalized at the time of our audit. Such delays are due to late submissions of final audited claims by the provinces.

Under the Bilingualism in Education Program, the Department is authorized to reimburse each province up to \$100,000 per annum for capital and other non-operating costs relating to language training centres for the official languages.

Where provinces submit claims for expenditures incurred during two or three fiscal years, payment is charged to the fiscal year in which the claims are paid.

Every attempt should be made to have interim provincial claims submitted and paid by March 31, followed as soon as possible by a final adjusted claim.

**12.29 Capital grants.** The Department operates an Arts and Culture Program with the objective of supporting and managing artistic programs other than those of the federal cultural agencies. This Program includes capital grants for the construction, expansion, or improvement of performing arts facilities. Terms and conditions for the grants were set out by the Treasury Board in November 1975. One requirement is that the Secretary of State appoint an assessment committee to study applications and recommend approval of grants. No formal assessment committee has yet been appointed.

A formal assessment committee should be appointed and the minutes of committee meetings should serve to document the members' evaluation of proposed capital projects.

In evaluating proposals for capital grants under the Arts and Culture Program, the Department obtains advice from the Canada Council and from various members of the arts community regarding the quality and degree of professionalism of the performing arts company applying for support. Architectural plans and anticipated project costs are included with the application, but they are not adequately analysed before grants are approved. Cost overruns and requests for corresponding increases in grants support are not uncommon.

The Department should obtain expert assistance in evaluating architectural, engineering, and construction elements of proposals to ensure that the design is appropriate and that anticipated costs are reasonable. In addition, the assessment of projects should be documented and recommendations for approval signed by evaluation officers.

Recipients of capital grants under the Arts and Culture Program are required to provide the Department with audited financial statements and progress reports on funded projects, but this is not always done.

**12.30 Internal financial controls.** Weaknesses in financial control were found in the following areas:

- *Budgetary control.* For the last three years, provincial claims for contributions under the Immigrant Orientation Program have substantially exceeded the allotment in the Department's budget. As a result, the Department has been required to seek additional funds from the Treasury Board to cover past claims and claims anticipated for the current fiscal year. Because agreements with the provinces do not specify the maximum federal contribution, the Department has no control over the cost of this Program and little basis for determining budgetary requirements.

- *Delegation of signing authorities.* There has been no formal delegation in the Department of signing authorities for spending and paying funds allotted to grants and contributions, although officials in positions below the ministerial level are exercising them. In view of the material amount of grants and contributions the Department administers, the lack of delegation of signing authorities represents a serious weakness in internal control.

Spending and payment authorities should be appropriately delegated and specimen signature cards maintained on file for verification. In exercising spending authority, all payments should be certified as being in accordance with grant approvals or contribution agreements.

- *Validation of claims.* Under the Bilingualism in Education Program, an instance was found where payments totalling approximately \$2 million were made as a contribution to the costs of a provincial building without sufficient documentation in support of the claims and without performance of an audit of expenditures by either the provincial auditor or the Department.
- *Control and evaluation.* Under the Citizenship Program, recipients of grants and contributions generally are required to submit an activity report at the conclusion of the project. A review of files in regional offices of the Department revealed that in many cases there were no progress or activity reports, follow-up letters requesting such reports, final reports or assessments by recipients, financial statements, documented evaluations of projects by regional field officers, or analyses by district or regional officers of those financial reports that were submitted. In the absence of such reports or other formal documentation, it is difficult to evaluate the effectiveness of the use of funds under the Program.

## The Canada Council

**12.31** In 1976-77, we reviewed procedures the Canada Council follows in awarding grants and the internal controls it applies in administering the grants program. The main function of the Council is to subsidize activities in the arts, humanities and social sciences, and for this purpose it receives an annual grant from Parliament, based on the Treasury Board's approval of the Council's budget estimates. The amount allocated for the fiscal year 1976-77 totalled \$60 million.

The deficiencies found in the Council's management of grants were attributable largely to a lack of clearly defined policies and consistent procedures. The following summary identifies specific areas in which improvements should be made.

**12.32 Documentation in support of applications and awards.** There was a lack of adequate documentation on some files, both for applications submitted and for subsequent action on individual projects. For example, some applications

lacked a definition of project objectives, necessary financial information such as projected budgets, or proof of the applicant's eligibility for support. In some cases, no written application was on file. Other information missing from files included staff recommendations on applications, progress reports, complete financial statements, and grant notice forms.

Proper documentation in support of applications and awards should be on file for each grant paid by the Council.

**12.33 Monitoring and evaluation.** Deficiencies were found in the monitoring and evaluation of projects. Although grant notices generally require that recipients submit progress reports, financial statements, and final reports on completion of a project, in fact in some programs these documents are frequently not supplied.

The Council should ensure compliance with the terms of grant notice forms and also review the suitability of current monitoring and financial reporting requirements as a basis for program evaluation.

**12.34 Procedures manual.** In view of the many omissions from applicants' files, there is a clear need for a policy and procedures manual which describes eligibility and assessment criteria, identifying all types of documentation required in support of an application, outlining the stages in evaluating an application, specifying the documents to be filed at various points in the evaluation process, and describing appropriate acceptance and payment procedures. Plans are under way to develop such a manual, and it is suggested that the Council give this project high priority.

**12.35 Internal financial controls.** A number of weaknesses were found in the Council's system of internal financial control, and again these were attributable mainly to the lack of well-defined procedures. The following areas were identified as being of particular concern:

- *Budgetary control.* There are no guidelines to indicate the Council's policy and procedures on budget transfers. Two instances were noted of budget transfers that were made without previous discussion with the appropriate section head or were otherwise not satisfactorily explained.
- *Spending and payment authorities.* Improvements should be made in the definition and exercise of spending and payment authorities within the Council. Weaknesses include insufficient distinction between the two functions, an incomplete file of specimen signatures and the use of initials rather than full signatures for spending and payment authorization.



## **National Museums of Canada**

**12.36** We evaluated the adequacy of financial management and control which the National Museums of Canada exercises over grants and contributions. Funds for this purpose are provided under Vote 90 of the Department of the Secretary of State.

**12.37 Change from contributions to grants.** In October 1975, the Treasury Board approved an amendment to the Contributions Program of the National Museums, including the transfer to the grants category of funds formerly designated as contributions. The amount thus transferred for 1976-77 was \$8.2 million.

For these grant awards the National Museums requires audit and accountability criteria to ensure that the use of funds is consistent with and supportive of the objectives of the assistance program. These criteria include payment of grants for core funding in two instalments, the second one being made after the recipient organization has reported relevant expenditures for the previous year; and full reporting on the use of funds by recipients of project grants, supported by an audited financial statement and an assessment of the effectiveness of the project.

Since the National Museums recognizes the requirements for accountability for its core funding and project funding assistance program, it should review with the Treasury Board the classification of this financial assistance in relation to the planned directive on grants and contributions.

**12.38 Control over advance payments.** Most contributions by the National Museums have represented advance payments rather than reimbursements of past expenditures. In paragraph 11.14 of our 1975 Report, it was observed that there were weaknesses in the system of accounting for advances and that accounting records were incomplete in this respect.

Monitoring of advance payments and accountability for their use consists of an occasional review of files and preparation of a summary identifying amounts unaccounted for by program and by province. As at December 14, 1976, about \$3.8 million in advances paid in 1975-76 and prior fiscal years had not been accounted for; and of this amount, \$1.6 million represented unexpended funds. These outstanding advances are not identified in the Public Accounts.

Effective financial control requires the establishment of an accounting system to determine the status of outstanding advances, including a monthly report to senior officials and identification of amounts unaccounted for by recipients and by year. In addition, recipients of advances should be required to return any unexpended funds within one month after the end of the fiscal year, unless they can provide satisfactory evidence of acceptable plans for subsequent use.

Advances which are in excess of amounts set by terms and conditions approved by the Treasury Board and have not been accounted for at the year end should be disclosed in the Public Accounts.

**12.39 Reporting and evaluation.** The Treasury Board has required recipients of project funding assistance to "provide the National Museums of Canada with a full report detailing the manner in which the funds were spent", including an audited financial statement covering the entire project and detailing costs to which the funds were applied.

The standard letter now used to inform recipients of terms and conditions of project funding does not include the requirement for audited financial statements.

Terms and conditions of project funding should specify all the reporting and evaluation requirements specified by the Treasury Board, and the National Museums should ensure that recent and future recipients of funds satisfy these requirements.

In one case, a payment of \$25,000, representing one-half of a contribution approved in 1975-76, was made in 1976-77 to a museum, although the organization failed to supply required budget information and to accept formally the terms and conditions of the contribution. The Treasury Board approval of the contribution was also qualified by the requirement that, before any payment was made, an evaluation of the organization's past work that had been supported by National Museums funds would be carried out by the Secretariat and by suitable experts in the field. This evaluation was made only in April 1977.

**12.40 Internal financial controls.** Weaknesses in financial control were identified in the following areas:

- *Delegation of signing authority.* The authority to sign cheque requisitions under Section 26 of the Financial Administration Act has been delegated to organizational positions in the National Museums, but spending authority has not been similarly delegated. Also, the specimen signature cards on file for verification of the exercise of delegated payment authority are not up to date.
- *Financial reporting.* Financial information is provided through a monthly expenditure report issued by the Department of Supply and Services. This report does not identify year-to-date payments to recipient organizations, and no formal procedures have been established to reconcile totals on the monthly reports with individual payments recorded by the National Museums. Action is now being taken to correct these deficiencies.

In addition, not all payments made by the National Museums of Canada are supported by adequate documentation.

In instances where unsupported payments have been made, an investigation should be conducted and appropriate corrective action taken.

## **National Research Council of Canada**

**12.41** In the National Research Council we examined all programs and activities involving expenditure on grants and contributions. Observations were reported to the Council's authorities and implementation of many of our recommendations has already started. Although the audit did not disclose any major weaknesses, a number of deficiencies and recommendations for remedial action are reported in the following paragraphs.

**12.42 Scholarships and grants in aid of research.** The program is divided into four activities.

- Grants and contributions for research expense and equipment costs awarded to individuals and groups on the recommendation of their peers.
- Developmental grants and contributions awarded to individuals, groups and institutions for major research installations, research programs, special research projects and regional development of research capability.
- Scholarships and fellowships awarded in national competitions for the training and development of highly qualified manpower.
- Grants to support national and international activities in science and engineering.

Currently, all four activities are administered by the Office of Grants and Scholarships and the Office of International Relations. In 1976-77, the appropriation for all scholarships and grants-in-aid of research was \$86 million.

Recipients of grants under this program are selected by Grant Selection Committees. There are about 20 of these committees, representing the various scientific disciplines, and their membership is drawn mainly from the scientific community outside the National Research Council. The Office of Grants and Scholarships has developed administrative guidelines for most of the committees, with a view to achieving a degree of consistency and standardization in their method of operations; but there are substantial variations in the procedures that are actually followed. In some cases, no guidelines exist; for example, there are none for site visits by Grant Selection Committees. In other cases existing guidelines are not observed. Once the selection process has been completed, committees are required to report their decisions to the Office of Grants and Scholarships in accordance with specific guidelines on format and content; but these guidelines are not always followed. Finally, there is some question as to the extent of the authority of the committees and the right of the National Research Council to overrule their decisions.

The authority structure within the program is further complicated by the existence of the Committee on Grants and Scholarships as a standing committee of the National Research Council. This Committee is composed mainly of

members of the Council of the National Research Council and of a few outside members. It receives minutes of its sub-committees and reports from all grants, scholarships and other selection committees, reviews the awards recommended, and discusses problem areas.

The minutes of the Committee on Grants and Scholarships do not always indicate that the minutes of its sub-committees or reports from other committees have been tabled or approved formally. In addition, there is incomplete central listing of grants awarded by executive management action so that these are easily omitted from the minutes. There is also some confusion as to the exact authority and mandate of the Committee on Grants and Scholarships with respect to the approval of awards.

There is a need for the Office of Grants and Scholarships to establish clear policies and guidelines for the different committees at the National Research Council and to ensure that, once established, they are adhered to. The question of final decision-making authority also should be resolved.

**12.43 Canada-France-Hawaii Telescope Project.** In 1973, Canada undertook a commitment to contribute to the cost of designing and constructing a 3.6 meter optical telescope and associated facilities in Hawaii. The contribution to capital costs is to be about \$14 million (50% of the total), plus about \$340,000 annually to help cover operating and administrative costs until construction is completed in 1977-78. Subsequently, Canada will contribute U.S. \$425,000 (estimated in 1973 dollars) annually to the operating costs of the Canada-France-Hawaii Telescope Corporation which has assumed financial and managerial responsibility for the project. In 1976-77, the appropriation for the project was \$4.96 million.

In view of the magnitude of the funds committed to the Canada-France-Hawaii Telescope Project, it is important that relevant financial information on the project be included in the Annual Report of the National Research Council. Such information should indicate actual project costs, the extent of the Council's interest in the Canada-France-Hawaii Telescope Corporation which amounts to 42.5% of the Corporation's total equity, and the commitment to fund operations after construction of the telescope has been completed.





**DEPARTMENTAL AND CORPORATE AUDITS**



## DEPARTMENTAL AND CORPORATE AUDITS

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**FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA FOR THE  
FISCAL YEAR ENDED MARCH 31, 1977, AS PREPARED BY THE RECEIVER  
GENERAL AND INCLUDED IN THE PUBLIC ACCOUNTS OF CANADA**

**EXCHANGE FUND ACCOUNT STATEMENT OF ASSETS AND LIABILITIES  
AT DECEMBER 31, 1976**



GOVERNMENT OF CANADA

Statement of Revenue and Expenditure for the Year Ended March 31, 1977

(in millions of dollars)

	Gross Revenue	Revenue credited to appropriation	Net Revenue	
			1977	1976
REVENUE				
Tax revenue—				
Income tax—				
Personal .....	14,620		14,620	12,709
Corporation .....	5,377		5,377	5,748
Non-resident .....	451		451	482
Excise taxes—				
Sales .....	3,929		3,929	3,515
Other .....	485		485	438
Special excise tax—Gasoline .....	600		600	425
Oil export charge .....	661		661	1,063
Custom import duties .....	2,097		2,097	1,887
Excise duties .....	865		865	815
Miscellaneous .....	70		70	11
Total .....	29,155		29,155	27,093
Non-tax revenue—				
Return on investments .....	2,493		2,493	2,097
Post Office—Net postal revenue .....	615		615	444
Refunds of previous years' expenditures .....	184		184	121
Services and service fees .....	59		59	48
Proceeds from sales .....	15		15	12
Privileges, licences and permits .....	35		35	38
Bullion and coinage .....	17		17	37
Premium, discount and exchange .....				2
Miscellaneous .....	67		67	64
Total .....	3,485		3,485	2,863
Revenue credited to appropriations .....	875	875		
Total revenue .....	33,515	875	32,640	29,956

# Departmental and Corporate Audits

	Gross expen- diture	Revenue credited to appropriations	Net expenditure	
			1977	1976
EXPENDITURE				
Agriculture .....	636	6	630	651
Communications .....	72	21	51	65
Consumer and Corporate Affairs .....	84		84	62
Energy, Mines and Resources .....	1,423	78	1,345	1,820
Environment .....	521	36	485	453
External Affairs .....	730		730	679
Finance .....	8,306	6	8,300	6,915
Governor General and Lieutenant-Governors .....	3		3	2
Indian Affairs and Northern Development .....	1,014	11	1,003	843
Industry, Trade and Commerce .....	771		771	628
Justice .....	85		85	82
Labour .....	32		32	40
Manpower and Immigration .....	2,770		2,770	1,836
National Defence .....	3,556	191	3,365	2,974
National Health and Welfare .....	10,965	14	10,951	9,731
National Revenue .....	476	29	447	395
Parliament .....	73		73	67
Post Office .....	1,151	48	1,103	913
Privy Council .....	33		33	32
Public Works .....	746	63	683	630
Regional Economic Expansion .....	495		495	489
Science and Technology .....	247	6	241	204
Secretary of State .....	1,581	10	1,571	1,323
Solicitor General .....	811	126	685	584
Supply and Services .....	156	41	115	98
Transport .....	1,455	142	1,313	1,196
Treasury Board .....	199	6	193	142
Urban Affairs .....	631	6	625	440
Veterans Affairs .....	783	35	748	684
Total expenditure .....	39,805	875	38,930	33,978
Total revenue .....	33,515	875	32,640	29,956
BUDGETARY DEFICIT .....	6,290		6,290	4,022

The accompanying Notes are an integral part of this statement.

Details of revenues and expenditures by departments can be found in departmental sections of Volume II.

T. K. SHOYAMA,  
Deputy Minister of Finance.

J. L. FRY,  
Deputy Receiver General for Canada.

## Auditor General's certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Receiver General for Canada and that, in my opinion, it exhibits a correct view of the expenditure and revenue of Canada for the year ended March 31, 1977 in accordance with the accounting policies referred to in Note 1 to the Financial Statements of the Government of Canada.

September 15, 1977

J. J. MACDONELL,  
Auditor General of Canada.

(This Statement and the Notes thereto are to be found in  
Volume I, Section 3 of the Public Accounts)

GOVERNMENT OF CANADA

Statement of Assets and Liabilities as at March 31, 1977

(in millions of dollars)

	1976-77	1975-76	Net increase or decrease (—)
<b>ASSETS</b>			
Loans, investments and advances—			
Crown corporations and agencies, Schedule A, Section 10—			
Lending institutions—			
Central Mortgage and Housing Corporation .....	9,173	8,336	837
Export Development Corporation .....	1,390	1,188	202
Farm Credit Corporation .....	2,238	1,961	277
Federal Business Development Bank .....	504	197	307
Other .....	16	16	
	13,321	11,698	1,623
All other Crown corporations—			
Air Canada .....	313	396	— 83
Atomic Energy of Canada Limited .....	1,204	1,048	156
Canadian National Railways .....	2,923	2,883	40
Petro-Canada .....	494	237	257
Other .....	1,983	1,861	122
	6,917	6,425	492
Total Crown corporations and agencies .....	20,238	18,123	2,115
Other loans, investments and advances—			
Provincial and territorial governments, Schedule B, Section 10 .....	1,414	1,281	133
National governments including developing countries, Schedule C, Section 10 .....	2,272	2,081	191
Unemployment Insurance Account—Interest-bearing advances .....		70	— 70
Municipal Development and Loan Board—Advances, Schedule D, Section 10 .....	202	213	— 11
Veterans' Land Act Fund advances—Less allowance for conditional benefits, Schedule D, Section 10 .....	476	508	— 32
Government controlled corporations, Schedule E, Section 10 .....	446	404	42
Private sector enterprises, Schedule F, Section 10 .....	137	230	— 93
Inactive loans, Schedule G, Section 10 .....	56	56	
Miscellaneous, Schedule H, Section 10 .....	184	171	13
	5,187	5,014	173
<b>TOTAL LOANS, INVESTMENTS AND ADVANCES .....</b>	<b>25,425</b>	<b>23,137</b>	<b>2,288</b>
Other assets—			
Cash in transit, Schedule J, Section 10 .....	838	669	169
Internal accounts—			
Working capital advances to revolving funds, departments and agencies, Schedule L, Section 10 .....	727	843	— 116
Unemployment Insurance advances .....	1,734	2,255	— 521
Unamortized bond flotation costs .....	140	140	
<b>TOTAL INTERNAL ACCOUNTS .....</b>	<b>2,601</b>	<b>3,238</b>	<b>— 637</b>
Foreign assets—			
Exchange Fund Account .....	3,217	4,754	— 1,537
Subscriptions, loans and advances—			
International Monetary Fund .....	1,232	1,342	— 110
Other international organizations, Schedule I, Section 10 .....	1,125	860	265
<b>TOTAL FOREIGN ASSETS .....</b>	<b>5,574</b>	<b>6,956</b>	<b>— 1,382</b>
Cash balances, Schedule J, Section 10 .....	3,597	3,052	545
<b>TOTAL ASSETS .....</b>	<b>38,035</b>	<b>37,052</b>	<b>983</b>
Less: allowance for losses on realization of assets, Schedule K, Section 10 .....	— 546	— 546	
Fixed assets (valued at one dollar) .....			
<b>NET RECORDED ASSETS .....</b>	<b>37,489</b>	<b>36,506</b>	<b>983</b>
Excess of recorded liabilities over net recorded assets, Schedule M, Section 10 .....	29,586	23,296	6,290
<b>TOTAL .....</b>	<b>67,075</b>	<b>59,802</b>	<b>7,273</b>

# Departmental and Corporate Audits

	1976-77	1975-76	Net increase or decrease(—)
<b>LIABILITIES</b>			
Annuity, insurance and pension accounts, Schedule N, Section 10—			
Canada Pension Plan account .....	11,357	9,770	1,587
Less: provincial government securities in investment fund .....	10,851	9,362	1,489
	506	408	98
Superannuation accounts .....	15,730	14,257	1,473
Less: unamortized portion of actuarial deficiencies .....	1,723	1,830	— 107
	14,007	12,427	1,580
Government annuities .....	1,241	1,242	— 1
Other .....	407	307	100
	1,648	1,549	99
<b>TOTAL ANNUITY, INSURANCE AND PENSION ACCOUNTS</b> .....	<b>16,161</b>	<b>14,384</b>	<b>1,777</b>
<b>Other liabilities—</b>			
Interest and matured debt, Schedule O, Section 10 .....	3,743	3,032	711
Less: discount on Treasury bills .....	124	109	15
	3,619	2,923	696
Accounts payable and accrued salaries .....	1,708	1,085	623
Outstanding cheques, warrants and money orders .....	1,389	1,750	— 361
Provincial tax collection agreements account .....		50	— 50
Deposit and trust accounts, Schedule P, Section 10 .....	414	332	82
Other .....	111	101	10
<b>TOTAL OTHER LIABILITIES</b> .....	<b>7,241</b>	<b>6,241</b>	<b>1,000</b>
<b>Internal Accounts—</b>			
Undisbursed balances of appropriations to special accounts, Schedule S, Section 10 .....	38	94	— 56
<b>Foreign liabilities—</b>			
Notes payable to—			
International Monetary Fund .....	625	989	— 364
Other international organizations, Schedule Q, Section 10 .....	282	176	106
Special Drawing Rights .....	370	370	
Unmatured debt payable in foreign currency .....	164	166	— 2
<b>TOTAL FOREIGN LIABILITIES</b> .....	<b>1,441</b>	<b>1,701</b>	<b>— 260</b>
<b>Unmatured debt, Schedule R, Section 10—</b>			
Marketable bonds .....	17,888	15,623	2,265
Canada savings bonds .....	16,304	15,517	787
Special non-marketable bonds .....	72	62	10
Treasury bills .....	8,255	6,495	1,760
Total unmaturred debt outstanding .....	42,519	37,697	4,822
Less: government's holdings of unmaturred debt—			
Marketable bonds .....	— 11	— 14	3
Canada savings bonds held on account of employees .....	— 78	— 73	— 5
Special non-marketable bonds issued to Canada Pension Plan investment fund .....	— 72	— 62	— 10
Total unmaturred debt held by outside parties .....	42,358	37,548	4,810
Less: unmaturred debt payable in foreign currency .....	— 164	— 166	2
<b>TOTAL UNMATURRED DEBT PAYABLE IN CANADIAN CURRENCY</b> .....	<b>42,194</b>	<b>37,382</b>	<b>4,812</b>
<b>TOTAL</b> .....	<b>67,075</b>	<b>59,802</b>	<b>7,273</b>

The accompanying Notes are an integral part of this statement.

Detailed schedules of the asset and liability accounts can be found in Section 10.

T. K. SHOYAMA,  
Deputy Minister of Finance.

J. L. FRY,  
Deputy Receiver General for Canada.

*Auditor General's certificate*

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Receiver General for Canada and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1977 in accordance with the accounting policies referred to in Note 1 to the Financial Statements of the Government of Canada.

September 15, 1977

J. J. MACDONELL,  
Auditor General of Canada.

(This Statement and the Notes thereto are to be found in Volume I, Section 3 of the Public Accounts. The Schedules and pages referred to are to be found in Volume I, Section 10, except where otherwise indicated.)



# GOVERNMENT OF CANADA

## Summary of Budgetary Appropriations, Expenditures and Unexpended Balances by Department for the Year Ended March 31, 1977

(in millions of dollars)

Department	Appropriations	Expenditures	Variances		
			Unexpended Balances		
			Lapsed	Carried forward	Over-expenditure
Agriculture.....	(2)687	630	32	(1)25	
Communications.....	68	51	17		
Consumer and Corporate Affairs.....	89	84	5		
Energy, Mines and Resources.....	1,819	1,345	474		
Environment.....	516	485	31		
External Affairs.....	(3)789	730	59		
Finance.....	8,301	8,300	1		
Governor General and Lieutenant-Governors.....	3	3			
Indian Affairs and Northern Development.....	(3)1,016	1,003	13	(1)	
Industry, Trade and Commerce.....	806	771	35		
Justice.....	90	85	5		
Labour.....	33	32	1		
Manpower and Immigration.....	2,804	2,770	34		
National Defence.....	3,379	3,365	14		
National Health and Welfare.....	10,983	10,951	32		
National Revenue.....	462	447	15		
Parliament.....	75	73	2		
Post Office.....	1,154	1,103	51		
Privy Council.....	36	33	3		
Public Works.....	745	683	62		
Regional Economic Expansion.....	527	495	32		
Science and Technology.....	244	241	3		
Secretary of State.....	(4)1,593	1,571	22	(1)	
Solicitor General.....	722	685	37		
Supply and Services.....	120	115	5		
Transport.....	1,400	1,313	87		(6)
Treasury Board.....	297	193	104		
Urban Affairs.....	648	625	23		
Veterans Affairs.....	773	748	25		
<b>Total.....</b>	<b>40,179</b>	<b>38,930</b>	<b>1,224</b>	<b>25</b>	

(1) Available for expenditure in subsequent years: Department of Agriculture vote 15, 1971-72 and 1972-73, \$24,775,776; Department of Indian Affairs and Northern Development vote 30, 1971-72, \$336,764; Department of Secretary of State vote 2b, 1968-69, \$55,588.

(2) Includes \$27,668,158 carried forward from vote 15, Department of Agriculture 1971-72, 1972-73 appropriations.

(3) Includes \$862,397 carried forward from vote 30, Department of Indian Affairs and Northern Development 1971-72 appropriations.

(4) Includes \$55,588 carried forward from vote 2b, Department of Secretary of State 1968-69 appropriations.

(5) Includes \$32,588,756 carried forward from vote 30, Department of External Affairs 1975-76 appropriations.

(6) Represents an over-expenditure of \$712 in vote 97d, Department of Transport.

The accompanying Notes are an integral part of this statement.

Details of appropriations and expenditures by departments can be found in departmental sections of Volume II.

T. K. SHOYAMA,  
Deputy Minister of Finance.

J. L. FRY,  
Deputy Receiver General for Canada.

Auditor General's certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1977 in accordance with the accounting policies referred to in Note 1 to the Financial Statements of the Government of Canada.

September 15, 1977

J. J. MACDONELL,  
Auditor General of Canada.

(This Summary and the Notes thereto are to be found in  
Volume I, Section 3 of Public Accounts)

## Notes to the Financial Statements of the Government of Canada

### Introduction

Revisions have been made in the presentation of the financial statements in order to implement several recommendations made in the Report on the Study of the Accounts of Canada which was approved by the Standing Committee on the Public Accounts on March 9, 1976. These changes are described in the Notes to the financial statements which follow.

### 1. Significant accounting policies and practices

#### i. Basic Concepts

The Government's accounting system is based on two concepts embodied in the British North America Act which provides that all duties and revenues, other than those reserved to the Provinces, "shall form One Consolidated Revenue Fund" and that the balance of the Fund, after certain prior charges, "shall be appropriated by the Parliament of Canada". The Financial Administration Act further provides that "All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year" but modifies this requirement by permitting debts which are incurred during the year and paid within the following thirty days to be included in the accounts of the year.

#### ii. The Government of Canada as an accounting entity

The Government of Canada for purposes of these statements is defined as the aggregate of all its departments, agencies, boards, commissions, councils, Crown corporations, funds and other bodies, except the "agency" and "proprietary" corporations listed in schedules C and D of the Financial Administration Act, and those Crown corporations that are not subject to the Financial Administration Act. This definition is consistent with that affirmed in the Report on the Study of the Accounts of Canada.

#### iii. The identification of financial transactions

As noted under i., all cash receipts and payments of the Government pass through the Consolidated Revenue Fund. The identification of the Government's financial transactions therefore begins with the identification of all cash transactions that lead to changes in the balance of the Consolidated Revenue Fund. However, in addition to cash transactions, there are a number of non-cash transactions which, although not changing the balance of the Consolidated Revenue Fund, are reported in the Public Accounts in compliance with legislation and regulations.

#### iv. Reporting of budgetary revenue

Revenue from parties outside the Government of Canada is recorded when received in the Consolidated Revenue Fund and is not adjusted for amounts receivable.

Revenue is reported both gross and net in the Statement of Revenue and Expenditure in which certain

receipts and revenues netted against expenditures under authority of Parliament are added in total to revenue to arrive at gross revenue. However, interdepartmental transactions have not been deducted in arriving at gross revenue from outside parties. When the recommendations of the Study of the Accounts of Canada are fully implemented such interdepartmental transactions will be disclosed.

Revenue is stated net of refunds and excludes amounts credited to asset and liability accounts in compliance with legislation and regulations.

#### v. Reporting of budgetary expenditure

Budgetary expenditure includes payments made during the year and within thirty days following the end of the year on account of debts incurred for operating expenditures, capital expenditures, grants and contributions.

It also includes:

- Accruals of interest on the public debt;
- Accruals of certain salaries and wages earned but not paid at the end of the year;
- Interest and government contributions credited to pension accounts and to the Unemployment Insurance Account;
- Write-off of losses;
- Amortization of loan flotation costs and actuarial deficiencies of superannuation accounts;
- Amounts credited to undisbursed balances of appropriations to special accounts; and
- Credits to votes from other appropriations, revolving funds and other non-budgetary accounts.

In the Statement of Revenue and Expenditure, expenditure is reported both gross and net. To arrive at gross expenditure, certain receipts and revenues netted against expenditure under the authority of Parliament, are added back. However, interdepartmental transactions have not been deducted to arrive at gross expenditure to outside parties. When the recommendations of the Study of the Accounts of Canada are fully implemented, such interdepartmental transactions will be disclosed.

#### vi. Definition of assets and liabilities

In the Study of the Accounts of Canada, assets are defined as "the financial claims acquired by the Government of Canada on outside organizations and individuals as a result of events and transactions prior to the accounting date", and liabilities are defined as "its financial obligations to outside organizations and individuals as a result of events and transactions prior to the accounting date".

The application of these definitions to the reported assets and liabilities excludes certain balances identified as "Internal accounts" which will continue to be reported on the Statement of Assets and Liabilities until Parliamentary authority to delete them from the Accounts of Canada has been obtained.

## Departmental and Corporate Audits

### vii. *Reporting of assets*

For the purposes of the Public Accounts the reported assets consist of:

- The realizable or income-earning financial claims acquired on outside organizations and individuals;
- Other financial claims on outside parties that yield no income and may not be realizable but for which no authority for deletion has been obtained from Parliament; and
- The balances in "Internal accounts" for advances to working capital accounts, revolving funds and the Unemployment Insurance Account, and unamortized bond flotation costs.

Assets not reported on the Statement of Assets and Liabilities include the following:

- Accruals of revenue;
- Inventories.

### viii. *Reporting of liabilities*

For the purposes of the Public Accounts the reported liabilities consist of:

- Financial obligations to outside organizations and individuals, including government employees, except for those noted below as not reported;
- Credit balances of internal accounts included in "Undisbursed balances of appropriations to special accounts".

Liabilities not reported on the Statement of Assets and Liabilities include the following:

- Accounts payable for goods and services received in the year but not paid within thirty days from the end of the year;
- Accrued liabilities for certain retroactive salary and wage settlements and for benefits payable upon termination of employment;
- Actuarial liabilities arising from the indexing to the cost of living of superannuate pensions and annuities.

### ix. *The valuation of assets and liabilities*

Assets are valued at cost except for:

- Those reported at amounts advanced less amounts repaid or written off as authorized by Parliament;
- Short-term assets denominated in foreign currencies, which are valued at year-end closing rates of exchange; and
- Fixed assets, which are carried at the nominal value of one dollar.

Assets have not been subject to revaluation to reflect collectable or recoverable values. However, a general allowance for losses on all classes of assets has been provided. This allowance, which was created prior to 1957 by charges to budgetary expenditure, does not constitute a reserve related to any specific assets or classes of assets.

Assets and liabilities denominated in foreign currencies, other than cash and short-term liabilities, are

recorded at historical values. Cash and short-term liabilities are valued at year-end closing rates of exchange.

Other liabilities are recorded in the amounts ultimately payable except for pension and annuity obligations. The government's obligations for superannuate pensions and annuities are valued on an actuarial basis, except for the obligations under the Canada Pension Plan account and the supplementary retirement benefits account which are not maintained on an actuarial basis.

## 2. *Changes in financial statement presentation*

Significant changes have been made in the financial statements, in accordance with recommendations made in the Report on the Study of the Accounts of Canada. These changes include the following:

### i. *Statement of Revenue and Expenditure*

Revenue and expenditure are reported both gross and net in the Statement of Revenue and Expenditure in which certain receipts and revenues netted against expenditures under authority of Parliament are added back in total to revenue and expenditure to arrive at gross revenue and expenditure. Only net amounts are shown for the previous year.

### ii. *Statement of Assets and Liabilities*

—The order in which assets and liabilities are displayed in the Statement of Assets and Liabilities has been changed as recommended in the Report on the Study of the Accounts of Canada. The order of presentation in the 1975-76 Public Accounts was in accordance with liquidity.

—In both the assets and the liabilities, a new classification for internal accounts has been introduced, as explained in Note 9.

—Deferred charges and deferred revenue have been offset against the asset and liability accounts to which they apply, and the Canada Pension Plan investment fund has been deducted from the balance in the Canada Pension Plan account. The effect of these changes was as follows:

		(in millions of dollars)
		Balances at March 31, 1977
<b>Asset balances offset against liabilities—</b>		
Canada Pension Plan investment fund, to		
Canada Pension Plan account .....	10,851	
Unamortized portion of actuarial deficiencies, to superannuation accounts .....	1,723	
Discount on Treasury bills, to interest and matured debt .....	124	
Cash and securities accounts, to trust accounts ..	91	
Securities accounts, to unmatured debt .....	161	
	12,950	
<b>Liability balances offset against assets—</b>		
Uncollected interest capitalized (formerly deferred revenue), to loans, investments and advances .....	510	
<b>Reduction in asset and liability totals .....</b>	<b>13,460</b>	

(These Notes are to be found in Volume I,  
Section 3 of the Public Accounts)



### 3. Change in accounting practices

#### *Unamortized bond flotation costs*

A change has been made in the practice of amortizing commissions and discounts on bonds. All commissions and discounts on bonds issued in 1976-77, net of bond premiums, have been charged directly to budgetary expenditure. Previously, such costs had been amortized over the term of the bonds. This change is in accordance with that proposed in the Report on the Study of the Accounts of Canada.

The effect of this change is that bond commissions and discounts have increased budgetary expenditure in 1976-77 by \$9 million. The comparable increase in 1975-76 would have been \$17 million but this restatement has not been made to the 1975-76 accounts.

No change has been made in the practice of amortizing Treasury bill discounts over the term of the bills.

### 4. Amounts not included in budgetary revenue and expenditure

#### *i. Postal receipts used to defray postal expenditures*

Gross postal receipts amounting to \$103 million were used to defray certain postal expenditures under the authority of the Post Office Act, R.S., c. P-14 and are not included in either gross or net revenue and expenditure. The comparative figure for 1975-76 was \$85 million.

#### *ii. Amounts credited or charged to departmental asset and liability accounts*

	(in millions of dollars)			
	1977		1976	
	Credits	Charges	Credits	Charges
Airports revolving fund .....	41	70	30	137
National Defence—Surplus crown assets and replacement of material accounts .....	9	5	14	8
External Affairs—International assistance account .....		43		30
Transport—Railway grade crossing fund .....		27		19
Urban Affairs—National capital fund .....				5
Deposit and trust accounts .....	14	3	14	4

#### *iii. Amounts credited or charged to annuity, insurance and pension accounts*

The Unemployment Insurance Account, the Canada Pension Plan account and the Government superannuation accounts are accounts maintained separately within the Accounts of Canada and accordingly contributions and expenditures made for these accounts are not reflected in budgetary revenue and expenditure.

	(in millions of dollars)			
	1977		1976	
	Credits	Charges	Credits	Charges
Canada Pension Plan .....	2,461	874	2,129	622
Unemployment Insurance Account .....	4,222	3,631	2,940	3,508
Superannuation accounts .....	1,950	476	2,060	389
Government annuities .....	92	93	89	99
Other annuities, insurance and pension accounts .....	143	43	111	35

### 5. Refund of previous year's expenditures—Ministry of State for Urban Affairs

The Statement of Revenue and Expenditure includes an amount of \$121 million in respect of Urban Affairs under "refunds of previous years' expenditures". This item is related to the costs reimbursed to Central Mortgage and Housing Corporation under certain provisions of the National Housing Act from January 1, 1976, to March 31, 1976. Reimbursed to the Corporation in the year ended March 31, 1976, these costs were charged to appropriations provided by statutory authority in that year. However, in the year ended March 31, 1977, in order to conform with the technical details of the appropriation acts these same costs were charged to the annual appropriation providing specifically for such reimbursements and a corresponding revenue was recorded under the caption referred to above. The practice which has been followed for a number of years in fact results in an overstatement of revenues of \$121 million in the current year (\$77 million in 1975-76). The Ministry's expenditures are also overstated by a similar amount. Under Appropriation Act No 3, 1977, this practice is discontinued in 1977-78.

### 6. Loans likely to require parliamentary appropriations for write-off

The following loans are likely to require parliamentary appropriation for write-off in subsequent years:

	(in millions of dollars)	
	1977	1976
Canadian Broadcasting Corporation .....	198	198
National Capital Commission .....	38	38
Northwest Territories .....	105	105
Yukon Territory .....	43	43
	384	384

### 7. Unrecorded surpluses or deficits of revolving funds

Some surpluses or deficits resulting from the operations of these funds are not included in budgetary revenue and expenditure as required by Treasury Board regulations.

Of these surpluses, the Airports revolving fund and the Supply revolving fund accounted for \$46 million (\$65 million in 1975-76) and \$8 million (\$3 million in 1975-76) respectively. In addition, there are a number of other funds which have retained surpluses or deficits of lesser amounts.

(These Notes are to be found in Volume I,  
Section 3 of the Public Accounts)



## 8. Provincial tax collection agreements account

The excess of payments over credits in this account was \$71 million at March 31, 1977 and is included under "Other loans, investments and advances—Provincial and territorial governments". The credit balance of \$50 million in the account at March 31, 1976 is included in "Other liabilities".

## 9. Internal accounts

Certain internal accounts previously reported as assets and liabilities do not meet the new definitions recommended in the Report on the Study of the Accounts of Canada. However, these accounts will continue to be reported as "Internal accounts" on the Statement of Assets and Liabilities until such time as Parliamentary authority is obtained to delete them.

"Internal accounts" reported as assets represent deferred expenditures chargeable to subsequent years, in accordance with legislation, regulations or established practice.

"Internal accounts" reported as liabilities represent spending authority carried forward to future years.

The balances reported as "Internal accounts" in the Statement of Assets and Liabilities at March 31 were as follows:

	(in millions of dollars)	
	Balances at March 31	
	1977	1976
<b>ASSETS</b>		
Working capital advances to revolving funds, departments and agencies .....	727	843
Unemployment Insurance advances .....	1,734	2,255
Unamortized bond flotation costs .....	140	140
	2,601	3,238
<b>LIABILITIES</b>		
Undisbursed balances of appropriations to special accounts .....	38	94

## 10. International assistance account

Appropriation Act No 1, 1977 repealed outstanding authorities to carry forward appropriations in the international assistance account and discontinued the account at March 31, 1977. Commencing in 1976-77, such appropriations are subject to annual lapsing and from 1977-78, budgetary expenditure will show amounts expended rather than amounts appropriated.

In 1976-77, total disbursements in the account were \$148 million which were funded by the balance of \$43 million carried forward from the previous year and by \$105 million charged to budgetary expenditure.

## 11. Unemployment Insurance Account

The accounts in respect of the Unemployment Insurance Account which are included in the Statement of Assets and Liabilities are summarized in the following table:

	(in millions of dollars)	
	1977	1976
<b>ASSETS</b>		
Unemployment Insurance Account—Interest-bearing advances .....		70
Unemployment Insurance advances—Non-interest-bearing advances .....	1,769	2,088
Unemployment Insurance Account .....	35	167
	1,734	2,255
	1,734	2,325
<b>LIABILITIES</b>		
Outstanding warrants .....	118	108

## 12. Canada Pension Plan

The accounts in respect of the Canada Pension Plan which are recorded on the Statement of Assets and Liabilities are summarized in the following table:

	(in millions of dollars)	
	1977	1976
Canada Pension Plan account .....	11,357	9,770
Unmatured debt—		
Canada Pension Plan investment fund .....	72	62
	11,429	9,832
Canada Pension Plan investment fund—Securities of, or guaranteed by—		
Provinces .....	10,851	9,362
Government of Canada .....	72	62
	10,923	9,424
Net liability to the Canada Pension Plan .....	506	408

The liability amounts shown above do not purport to reflect any obligation of the Government of Canada to discharge the unfunded actuarial liability of the Plan. Financial statements of the Canada Pension Plan Account can be found in Section 15 of Volume II.

## 13. Unamortized portion of actuarial deficiencies of superannuation accounts

These accounts record the unamortized portions of the actuarial deficiencies in the Public Service superannuation account, the Canadian Forces superannuation account, and the Royal Canadian Mounted Police superannuation account which have been set up as deferred charges and credited to superannuation accounts.

Actuarial valuations are made quinquennially, the next of which will be made effective December 31, 1977 for the Public Service superannuation account, December 31, 1975 for the Canadian Forces superannuation account and December 31, 1974 for the Royal Canadian Mounted Police superannuation account.

Any actuarial deficiency revealed will be credited to the account and charged to unamortized portion of actuarial deficiencies and amortized to budgetary expenditure in five equal annual instalments commencing in the fiscal year in

## Departmental and Corporate Audits

which the report is laid before Parliament. Also, the cost for benefits payable under the superannuation acts as a result of the authorization of salary increases is to be credited to the superannuation accounts and charged to unamortized portion of actuarial deficiencies and amortized to budgetary expenditure over a period of five years commencing in the year in which the increases are authorized.

Adjustments for actuarial deficiencies in respect of authorized salary increases were recorded in 1976-77 in the amount of \$677 million while amortization to budgetary expenditure was \$784 million. In 1975-76 adjustments were \$965 million and amortization was \$743 million. There were no quinquennial adjustments recorded in either year.

### 14. Unrecorded accounts payable

Some accounts applicable to the year ended March 31, 1977 are not recorded in the financial statements, but were carried over to be paid in the following year.

Accounts totalling \$46 million are disclosed in Section 11 of Volume 1 of the Public Accounts, "Summary of Accounts Properly Chargeable to 1976-77 but carried over to 1977-78". The comparative amount for 1975-76 was \$78 million.

### 15. Retroactive salary and wage payments

A number of collective bargaining agreements have been signed, that call for retroactive payments partly applicable to 1976-77 and which have been or will be paid in 1977-78. The estimate of the retroactive payments to be made pertaining to 1976-77 is \$44 million. No provision for this has been made in the 1976-77 accounts. The comparative amount for 1975-76 was \$48 million.

### 16. Foreign assets and liabilities

The foreign assets and liabilities recorded under these headings are those which are subject to settlement in foreign currencies. There are other foreign assets and liabilities such as foreign currencies which are included with other cash balances at their Canadian dollar equivalent and amounts denominated in foreign currencies which are held in deposit and trust accounts.

### 17. Valuation of assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies, other than those of a short-term nature, are recorded at historical values. The value of these assets and liabilities based on exchange rates in effect at March 31, 1977 (\$1 U.S. = \$1.0539 Canadian) are summarized in the following table.

(in millions of dollars)			
	Recorded value	Valuation at March 31, 1977 exchange rate	Over (Under) valuation
<b>ASSETS DENOMINATED IN FOREIGN CURRENCIES</b>			
Loans, investments and advances— Crown corporations and agencies .....	69	68	1
Exchange Fund account .....	3,217	3,326	(109)
Subscriptions, loans and advances—			
International Monetary Fund .....	1,232	1,344	(112)
Other international organizations .....	859	878	(19)
	5,377	5,616	(239)
<b>LIABILITIES DENOMINATED IN FOREIGN CURRENCIES</b>			
Special Drawing Rights .....	370	438	(68)
Unmatured debt .....	164	159	5
	534	597	(63)

Balances in bank accounts operated in foreign currencies are converted to Canadian currency at the year end on the basis of closing market rates.

### 18. Maturity of Government Debt

The following amounts represent that portion of unmatured debt maturing in the next five years.

(in millions of dollars)				
	Treasury bills	Marketable bonds	Canada savings bonds	Total
1978 .....	8,255	2,732	27	11,014
1979 .....		2,100	2,692	4,792
1980 .....		2,353	146	2,499
1981 .....		2,464	948	3,412
1982 .....		1,594	824	2,418
	8,255	11,243	4,637	24,135

It should be noted however that all Canada savings bonds are redeemable on demand regardless of maturity date.

Details of unmatured debt may be found in Section 10 of this volume.

### 19. Gross liabilities of the Government of Canada

The Statement of Assets and Liabilities has been prepared in accordance with the concept that assets are financial claims acquired by the Government of Canada on outside parties and liabilities are its financial obligations to outside parties. The deferred expenditure charges, which are deducted from certain

(These Notes are to be found in Volume I,  
Section 3 of the Public Accounts)

## Departmental and Corporate Audits

liabilities, are not in keeping with this concept. To arrive at the gross liabilities of the Government the amounts deducted must be added back to the total of liabilities as shown in the following table:

	(in millions of dollars)		
	Balances at March 31		Net increase or decrease ( - )
	1977	1976	
Total liabilities per statement .....	67,075	59,802	7,273
Unamortized portion of actuarial deficiencies .....	1,723	1,830	- 107
Discount on Treasury bills .....	124	109	15
Undisbursed balances of appropria- tions to special accounts .....	- 38	- 94	56
	68,884	61,647	7,237

### 20. Contingent liabilities of the Government of Canada

The determinate amounts outstanding under guarantees and other contingent liabilities assumed by the Government, as now recorded, are as follows:

	(in millions of dollars)	
	1977	1976
Railway securities guaranteed as to principal and interest .....	574	583
Insured loans under the National Housing Act, 1954 .....	15,130	13,864
Other outstanding amounts .....	3,109	2,677
	18,813	17,124

Details of these contingent liabilities, together with certain indeterminate guarantees, are listed in Section 10.

### 21. Events subsequent to the end of the year

The following events have occurred subsequent to the end of the year:

i. Under amendments to the Currency and Exchange Act passed June 27, 1977, the net income of the Exchange Fund account for the year ending December 31, 1977 is defined as including, inter alia, the deficit accumulated in the account to December 31, 1976. The deficit was \$125 million at that date.

The amendments also provide that the net income of the account for a year is to be paid into, or out of the Consolidated Revenue Fund if a loss, by March 31 of the following year. Thus the \$125 million deficit in the Exchange Fund at December 31, 1976, will be reflected in the Public Accounts of 1977-78 and has not been provided for in 1976-77. The deficit of \$125 million includes \$82 million accumulated to December 31, 1975.

ii. Effective April 1, 1977, the \$625 million of indebtedness of the St. Lawrence Seaway Authority, to the Government of Canada, is deemed to be paid to the Authority as its capital (Supplementary Estimates "D" for 1976-77). In the Public Accounts for 1977-78 the amount will be so recorded. This change does not affect the government's ownership of the Authority, which remains total.

iii. Cabinet approval was given on May 24, 1977 to write off loans to several least developed countries. These loans will be included in the Supplementary Estimates for 1977-78 which will then be subject to Parliamentary approval. The amount at which these loans were recorded at March 31, 1977 was \$215 million.

(These Notes are to be found in Volume I,  
Section 3 of the Public Accounts)

# Departmental and Corporate Audits

## Exchange Fund Account

(Established pursuant to the Currency and Exchange Act)

### STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1976

	1976	1975
	Canadian Dollars	Canadian Dollars
<b>ASSETS</b>		
Cash on deposit	\$ 685,846	\$ 894,462
	United States Dollars	United States Dollars
Assets in United States dollars		
Cash on deposit	\$ 55,292,974	\$ 7,244,974
United States Treasury bills and bonds at cost, with accrued interest	1,372,058,943	637,626,924
United States special Treasury notes at cost, with accrued interest	572,228,744	1,422,115,214
International Bank for Reconstruction and Development bonds at cost, with accrued interest	57,706,497	57,742,890
Assets denominated in special drawing rights and expressed in United States dollars		
International Monetary Fund		
Special drawing rights allocated to Canada	416,675,381	419,820,609
Special drawing rights acquired, with accrued interest	144,709,363	139,271,972
International Monetary Fund notes, with accrued interest	290,248,826	292,448,977
Gold	878,986,085	899,432,985
	<u>\$3,787,906,813</u>	<u>\$3,875,704,545</u>
Value of United States dollars converted to Canadian dollars at the closing rate for the United States dollar in Canada		
1976 - 1.0088; 1975 - 1.0160	3,821,240,395	3,937,715,818
Uncompleted contracts valuation adjustment	3,821,460	649,360
	<u>\$3,825,747,701</u>	<u>\$3,939,259,640</u>
<b>LIABILITIES</b>		
Due to Consolidated Revenue Fund, in accordance with Section 16 of the Currency and Exchange Act		
Earnings on investments	\$ 166,174,046	\$ 234,456,314
Net profit (loss) from trading operations in foreign exchange	(22,717,008)	5,366,094
Gold	30,526,136	
Securities	8,784,853	1,379,970
	16,593,981	6,746,064
Net profit from the net valuation adjustments on unmatched sales (1975) of foreign exchange		10,966,031
	182,768,027	252,168,409
Advances from the Consolidated Revenue Fund	3,348,000,000	3,343,000,000
Special drawing rights allocated to Canada by the International Monetary Fund	420,342,124	426,537,738
	<u>3,951,110,151</u>	<u>4,021,706,147</u>
Deficit		
Balance - beginning of year	82,446,507	131,406,966
Valuation adjustments on previous year's holdings on hand at the end of the year	32,482,684	(114,591,692)
Net valuation adjustment on special drawing rights denominated assets (including gold)	9,672,564	65,631,233
Net loss from the net valuation adjustments on unmatched purchases (1976) of foreign exchange	760,695	
	125,362,450	82,446,507
Balance - end of year	<u>\$3,825,747,701</u>	<u>\$3,939,259,640</u>

The accompanying notes are an integral part of the financial statement.

Certified correct:

The Bank of Canada

R. W. LAWSON

Deputy Governor

EDITH M. WHYTE

Chief of the International Department

(This Statement and the Notes thereto are to be found on pages 7.19  
and 7.20 of Volume II of the Public Accounts)



## Exchange Fund Account

### NOTES TO THE FINANCIAL STATEMENT

#### 1. Objectives of the Account and significant accounting policies

The Exchange Fund Account was established pursuant to the Currency and Exchange Act, R.S., c. C-39, to aid in the control and protection of the external value of the Canadian monetary unit. The account is in the name of the Minister of Finance and is administered by the Bank of Canada as fiscal agent.

The significant accounting policies are outlined below:

#### Financing of the Account

The Account is financed with advances from the Consolidated Revenue Fund. These advances are presently limited by Order-in-Council dated June 6, 1972 to \$6 billion.

#### Valuation of Assets

Assets in United States dollars are recorded at cost at the time of purchase including accrued interest where applicable. Premiums and discounts on securities are amortized over their remaining term to maturity.

Assets denominated in Special Drawing Rights (SDRs) including gold (1 troy ounce of gold = 35 SDRs) are valued at the U.S. \$/SDR rate. Since July 1974, this rate is calculated by the International Monetary Fund as a trade weighted average of the market values of sixteen major currencies. On December 30, 1976, the IMF reported the value of the SDR at U.S. \$1 = SDR 0.860670.

For accounting purposes, the Canadian dollar values of the Account's U.S. dollar assets are established at the closing market rate for the U.S. dollar in the Canadian market.

#### Allocation of Special Drawing Rights

The Special Drawing Right was created by the International Monetary Fund to supplement existing international reserve assets. SDRs are allocated on the basis of each member's quota (subscription) in the Fund. The liability in respect to the net cumulative allocation represents the obligation that Canada would incur upon the termination of Canada's participation in the Special Drawing Account or on the liquidation by the International Monetary Fund of the Special Drawing Account.

#### Amounts due to the Consolidated Revenue Fund

The following policies are governed by the specific requirements of section 16 of the Currency and Exchange Act:

##### a) Earnings on investments.

Earnings on investments are recorded on an accrual basis and include interest and the amortization of premiums and discounts.

##### b) Net profit from trading operations in foreign exchange, gold and securities.

Net profit from trading operations in foreign exchange, gold and securities is transferred to the Consolidated Revenue Fund. Net losses however would be charged to the Deficit account.

Sales of foreign currencies during the year are matched against the most recent purchases during the year.

##### c) Net profit from valuation adjustments on unmatched purchases or sales of foreign exchange, gold and securities.

Net profit from valuation adjustments on the increase or decrease in assets held in or expressed in United States dollars is credited to this account. A net loss would be charged to the deficit account.

#### Deficit account

This account includes the profit or loss arising from the changes in value of the SDR in terms of U.S. dollars. It also includes net losses from valuation changes on unmatched purchases or sales made during the year, and profits or losses arising from valuation adjustments to the inventory of assets held at the previous year-end.

#### 2. Proposed changes to the Currency and Exchange Act

The Deficit account could be affected by proposed legislation now before Parliament. Under the proposed legislation, the accumulated deficit of the Exchange Fund Account would be transferred to the Consolidated Revenue Fund, while changes in the valuation of the EFA's net assets in any subsequent year would be credited or debited to the Consolidated Revenue Fund over the following three years.

AUDITOR GENERAL OF CANADA  
Ottawa, Ontario

April 29, 1977

THE HONOURABLE DONALD S. MACDONALD, P.C., M.P.,  
MINISTER OF FINANCE,  
OTTAWA, ONTARIO.

Dear Mr. Macdonald,

I have examined the Exchange Fund Account and the transactions in connection therewith for the year ended December 31, 1976, as required by section 18 (2) of the Currency and Exchange Act, R.S., c. C-39.

My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. The Fund's holdings at the close of the year have been confirmed to us by the Auditors of the Bank of Canada.

In my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Currency and Exchange Act, the records of the Account show truly and clearly the state of the Account and the accompanying statement of assets and liabilities presents fairly the financial position of the Account at December 31, 1976, in accordance with the accounting policies described in Note 1 to the statement applied on a basis consistent with that of the preceding year.

Yours sincerely,

J.J. MACDONELL  
*Auditor General of Canada.*

### AUDITOR GENERAL'S REPORT TO PARLIAMENT

As required by section 18(2) of the Currency and Exchange Act, R.S., c. C-39, I have audited the Exchange Fund Account and the transactions in connection therewith for the year ended December 31, 1976, and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and that the records of the Account show truly and clearly the state of the Account.

J. J. Macdonell  
Auditor General of Canada.

**OBSERVATIONS BY THE AUDITOR GENERAL ON THE  
FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA**

**14.1 Introduction.** This Part contains observations that relate specifically to matters affecting the presentation of the financial statements of the Government of Canada for the year ended March 31, 1977, included in Part 13 and comprising the Statement of Revenue and Expenditure, the Statement of Assets and Liabilities and the Summary of Budgetary Appropriations, Expenditures and Unexpended Balances by Department. These observations were included in Section 4 of Volume I of the Public Accounts of Canada.

Many of the observations included in this Part concern matters that I commented on in previous Reports to the House of Commons. These matters relate to practices which result in serious deficiencies in the presentation of the financial position and the financial operations of the Government of Canada, even though such practices are in accordance with existing legislation and stated accounting policies. The implementation of the recommendations of the Study of the Accounts of Canada will correct some of these deficiencies. Others that relate to the valuation of loans to other governments and to government controlled organizations, are at present being studied by the Government in accordance with recommendations of the Standing Committee on Public Accounts.

**14.2 Changes in financial statement presentation.** Note 2 to the financial statements describes the significant changes in the presentation of the Statement of Assets and Liabilities and the Statement of Revenue and Expenditure. The changes reflect the implementation, in whole or in part, of several recommendations contained in the Report on the Study of the Accounts of Canada.

The Statement of Revenue and Expenditure has been changed to show the amount of revenue credited to gross expenditure under the authority of the relevant Appropriation Acts. This change corrects the distortion in the reporting of revenue and expenditure commented on in my 1976 Report, except for the treatment of certain expenditures from postal revenues, as disclosed in Note 4(i) to the financial statements, and the overstatement of revenues and expenditures of the Ministry of Urban Affairs, as shown in Note 5.

Assets and liabilities have been reordered and grouped in the Statement of Assets and Liabilities to comply with the recommendations of the Study of the Accounts of Canada. Certain balances which do not meet the definition of assets and liabilities prescribed by the Study and set out in Note 1 to the financial statements, are identified as Internal Accounts designated for deletion in future years. Included in these Internal Accounts are certain advances to the Unemployment Insurance Account, working capital advances not representing financial claims on third parties, and undisbursed balances of appropriations to special accounts. In previous years I commented on the accounting inconsistency

of reporting these balances as assets and liabilities of the Government of Canada. When the recommendations of the Study are fully implemented and these balances written off, this accounting inconsistency will be corrected.

Note 3 to the financial statements describes a change in accounting for bond discounts, premiums and other bond flotation costs. Only such costs incurred in the year were charged to budgetary expenditure. In 1977-78 the Government plans to write off the balance of unamortized bond flotation costs at March 31, 1976, which is included in Internal Accounts. This change in accounting practice implements another recommendation of the Study.

I previously indicated my support for the recommendations of the Study of the Accounts of Canada and am pleased to note the action taken in the year. A brief summary of the status of the Treasury Board Secretariat's plans for the implementation of the recommendations of the Study is contained later in this Part.

**14.3 Internal Accounts to be deleted.** Pending parliamentary approval for write off, the financial statements report the following balances of Internal Accounts, as described in Note 9, as assets and liabilities:

Assets

Working capital advances to revolving funds, departments and agencies .....	\$ 727 million
Unemployment Insurance advances .....	1,734 "
Unamortized bond flotation costs .....	140 "
	<u>\$2,601 million</u>

Liabilities

Undisbursed balances of appropriations to special accounts .....	<u>\$ 38 million</u>
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Accordingly, the reported assets and liabilities of the Government of Canada at March 31, 1977, are overstated by \$2,601 million and \$38 million respectively.

Loans, Investments and Advances to Crown Corporations and Agencies reported in the Statement of Assets and Liabilities includes \$91 million for a stockpile of uranium concentrates administered by Uranium Canada Limited for the Department of Energy, Mines and Resources. This amount should have been classified as a departmental working capital advance and included in Internal Accounts designated for deletion. Subsequent to the closing of the 1976-77 accounts, the Department initiated action to correct the classification of the amount in the Accounts of Canada.

**14.4 Loans likely to require parliamentary appropriation for write-off.** In my opinion, the following loans do not represent assets of the Government of Canada. The Government has recognized this and has indicated, as described below, that it intends to take action to delete them from the assets of the Government of Canada.

*Canadian Broadcasting Corporation, National Capital Commission, Northwest Territories and Yukon Territory.* Note 6 to the financial statements identifies the following outstanding loans as likely to require parliamentary appropriations for their write-off in subsequent fiscal years:

Canadian Broadcasting Corporation .....	\$198 million
National Capital Commission .....	38 "
Northwest Territories .....	105 "
Yukon Territory .....	43 "
	<hr/>
	\$384 million
	<hr/>

These loans were made before March 31, 1975, to finance capital expenditures. Since then, capital expenditures have been financed by budgetary appropriations of Canada. Payments of principal and interest on the outstanding loans have been deferred by Order in Council until 1979 pending the write-off and deletion from the Accounts of Canada of the amounts owing.

*Loans to least developed countries.* As described in Note 21 (iii) to the financial statements, loans to National Governments include approximately \$215 million in special loan assistance to a number of least developed countries which will be written off in 1977-78 subject to obtaining the necessary parliamentary approval.

**14.5 Loans and advances, the carrying value of which is questionable.** The recorded amounts of the following loans and advances, represented as assets of the Government of Canada, are questionable in view of the following circumstances:

*Loans to Crown corporations.* As pointed out in my previous Reports to the House of Commons, a number of Crown corporations, including the Canadian National Railways, the National Harbours Board and The St. Lawrence Seaway Authority, have a history of deficits and have lacked sufficient revenue to repay their outstanding loans without assistance by way of parliamentary appropriation.

Loans to the Canadian National Railways of \$1,412 million are included in the Statement of Assets and Liabilities. In 1976 the Corporation had a profit for the first time in many years and a



parliamentary appropriation to meet a current deficit was not required. Whether the Corporation will be able to continue to fully repay these loans without parliamentary appropriations depends on its ability to generate the necessary funds in future years.

Loans to the National Harbours Board amounted to \$330 million at the year end. Based on the present financial circumstances of this organization, it is doubtful that it will be able to fully meet the principal and interest obligations on these loans.

Loans to The St. Lawrence Seaway Authority totalled \$625 million and interest in arrears amounted to \$216 million at March 31, 1977. I previously reported that it was extremely unlikely that the Seaway Authority would be able to repay its capital indebtedness. Appropriation Act No. 1, 1977, approved the conversion of \$625 million of loans to equity capital of Canada as of April 1, 1977, as disclosed in Note 21(ii), and Order in Council approval was obtained to cancel any future accrual of interest. Authority will be sought to write off the \$216 million of interest in arrears.

*Loans to developing countries.* Loans to national governments include \$1,430 million in special loan assistance to developing countries. Most of these loans bear no interest and are usually repayable over 50 years with no payments falling due in the first 10 years. A certain number carry nominal interest rates of 3/4 of 1%. Loans for such long periods with such low interest rates have the characteristics of grants and, as previously mentioned, \$215 million will be written off in 1977-78 subject to parliamentary approval.

Subscriptions, Loans and Advances - Other International Organizations included in Foreign Assets includes \$263 million of special loan assistance to international development associations. These loans are working capital advances, have no repayment terms and bear no interest. Repayment will fall due only on termination of the association. These loans also have the characteristics of grants.

*Loans to Atomic Energy of Canada Limited.* Included in the loans to Atomic Energy of Canada Limited are the following relating to prototype nuclear power stations:

Gentilly I, Quebec .....	\$ 88 million
Douglas Point, Ontario .....	70 "
	<u>\$ 158 million</u>

During the year the Corporation obtained a parliamentary appropriation of \$85 million to cover accrued interest on these loans owing to Canada to March 31, 1977. The Corporation is also requesting revised terms to make the loans non-interest bearing as of April 1, 1977.

Ontario Hydro and Hydro-Québec are committed, under contract, to offer to purchase the prototype nuclear power stations at Douglas Point and Gentilly respectively at prices economically viable to the utilities when the stations have been demonstrated to be a safe and dependable source of power. It is not known when the sales might take place or whether the sales prices will provide for full recovery of the costs.

*Inactive loans.* Accounts in this category comprise:

Loans to China

Export Credits Insurance Act .....	\$ 49 million
Loans to Greece .....	7 "
	<u>\$ 56 million</u>

These loans are described in the Public Accounts as being neither currently revenue-producing nor realizable. In fact, there has been no change in the outstanding balances for over 20 years.

*Loans to Saint John Harbour Bridge Authority.* These loans are included in three categories as follows:

National Harbours Board

Saint John Harbour Bridge Authority .....	\$ 15 million
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Miscellaneous - The Department of Finance

Saint John Harbour Bridge Authority .....	8 "
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Municipal Development and Loan Board

Advances .....	2 "
	<u>\$ 25 million</u>

Revenues of the Saint John Harbour Bridge Authority have been insufficient to meet principal and interest payments on the National Harbours Board loan and the advances from the Municipal Development and Loan Board. The miscellaneous loan from the Department of Finance was made to cover the shortfalls on repayments of principal and interest. In these circumstances these loans cannot be regarded as fully collectible.

*Loans to be forgiven.* Loans to provincial governments include \$206 million for winter capital projects of which an estimated \$8 million relating to associated labour costs to May 31, 1975, is to be forgiven.

Outstanding loans of \$9 million at March 31, 1977, by the Department of Indian Affairs and Northern Development for Indian housing assistance, are non-interest bearing and subject to conditional forgiveness.

**14.6 Deficits of Crown corporations for which parliamentary appropriations are likely to be sought.** The following instances were noted where Crown corporations incurred deficits for which it appears likely that parliamentary appropriations will be sought:

*Canadian Dairy Commission.* The Canadian Dairy Commission reported an accumulated deficit of \$160 million at March 31, 1977, mainly the result of providing \$147 million for the deficit of the Export Equalization Account which the Minister of Agriculture has announced would be taken over by the Government.

*Canadian National Railways.* Following the recovery of the overpayment of subsidies to the Canadian National Railways for 1974 and 1975, the Corporation's deficit for those years will be increased by \$22 million. For many years, the operating deficits of the Corporation after accounting for subsidies received, have been compensated for through parliamentary appropriations. Accordingly, an appropriation will likely be sought to pay to the Corporation the \$22 million. Additional details on this subject may be found in paragraph 17.4.

*Atomic Energy of Canada Limited.* Parliamentary appropriations provided for \$110 million of the \$291 million excess of expenses over revenue recorded during the year, leaving a deficit of \$181 million of which \$170 million is attributable to a provision for estimated losses recorded by the Corporation. On the realization of these losses, parliamentary appropriations may be required.

**14.7 Exchange Fund Account deficit.** Advances to the Exchange Fund Account at March 31, 1977, amounted to \$3,217 million. The Statement of the Account as at December 31, 1976, showed an accumulated deficit of \$125 million. Under an amendment to the Currency and Exchange Act, this deficit will be charged to budgetary expenditure in 1977-78, as disclosed in Note 21(i) to the financial statements.

**14.8 Allowance for losses on realization of assets.** In assessing the valuation of the recorded assets of the Government of Canada, the allowance for losses on realization of assets should be considered. This allowance of \$546 million was established many years ago and does not constitute a provision for loss on the realization of any specific asset or class of assets. Departments are not currently required to identify delinquent loans and advances for purposes of assessing the adequacy of the allowance.

In considering the recommendations of the Study of the Accounts of Canada, two areas in which the Public Accounts Committee concluded that further study was necessary were as follows:

- the accounting of current and future loans to other governments;
- the accounting of current and future loans to government-controlled organizations whose financing is unrealistic and who therefore may not be in a position to repay such loans.

We understand that the Treasury Board Secretariat is undertaking a special study on the "Valuation of Assets" in response to the foregoing and in order to implement recommendations of the Study of the Accounts of Canada concerning the establishment of provisions for losses on specific classes of assets.

**14.9 Valuation of Pension Accounts.** The Financial Statements of the Government of Canada do not reflect any deficiency resulting from actuarial valuation of the Canada Pension Plan Account or the Supplementary Retirement Benefits Account. Relevant details are as follows:

*Canada Pension Plan Account.* As stated in Note 12, the Financial Statements of the Government of Canada do not purport to reflect any obligation of the Government of Canada to discharge the unfunded actuarial liability of the Canada Pension Plan.

Benefits paid under the Plan are financed from current contributions and the excess of receipts over disbursements is invested in provincial and federal securities. Should contributions be insufficient to meet benefit payments in future years, the deficiency would be financed by interest received or by a drawdown of the investments of the Plan. Based on current actuarial projections, assuming the current rate of contribution is maintained, contributions will be insufficient to cover benefits in 1983 and the assets of the Plan will be exhausted by 2000. The Canada Pension Plan Act limits payments from the Consolidated Revenue Fund to the amount of the outstanding balance in the Canada Pension Plan Account. Further comments on the Canada Pension Plan may be found in paragraph 17.6.

*Supplementary Retirement Benefits Account.* As described in Note 13 to the financial statements, actuarial valuations of the superannuation accounts are made quinquennially. Any resulting actuarial deficiencies are recorded in the accounts and amortized to budgetary expenditure in five equal annual instalments beginning in the year in which the actuarial report is laid before Parliament. No similar actuarial valuation is made of the Supplementary Retirement Benefits Account which was established in 1970 and from which increased benefits resulting from indexation were to be met.



Increased superannuation benefits paid during the year due to indexation amounted to \$131 million (\$90 million in 1975-76). In accordance with the legislation, \$126 million (\$89 million in 1975-76), representing benefit payments to superannuates in excess of their share of contributions to the Account, was charged to budgetary expenditures. Only \$5 million (\$1 million in 1975-76) was charged to the Supplementary Retirement Benefits Account. The magnitude of the benefit payments in excess of contributions and charged to budgetary expenditures, indicates that there could be a material actuarial liability of the Government of Canada under this plan. Since no actuarial valuation of the Account has been made, the actuarial liability is not recognized in the financial statements.

**14.10 Implementation of the recommendations of the Study of the Accounts of Canada.** In my 1976 Report, I stated that my Office would monitor adherence to the plans for the implementation of the recommendations of the Study of the Accounts of Canada outlined by the Treasury Board Secretariat. The following comments present a brief summary of the status of the implementation of the recommendations based on our review and discussions with the Financial Administration Branch of the Treasury Board Secretariat.

In addition to the changes in the presentation format of the Statement of Assets and Liabilities and the Statement of Revenue and Expenditure commented on above, summary statements of financial transactions were introduced in Section 2 of Volume I of the Public Accounts to comply with the recommendations of the Study. These summary statements are consistent with those used to report government financial transactions in the Budget Papers and the Canada Gazette. Changes in the order and grouping of balances on the Statement of Assets and Liabilities are intended to make that statement compatible with the summary statements of transactions; however, additional modifications will be required to make these statements fully consistent.

The Treasury Board Secretariat has not yet decided as to when it will seek parliamentary authority to delete Internal Account balances. A project to establish procedures for recording all accounts payable is underway. This project is intended to provide for the reporting of all accounts payable at March 31, 1978. Until these actions are completed, the assets and liabilities of the Government of Canada will not be reported on a basis consistent with the definitions recommended by the Study. Further, changes in appropriations for revolving funds and amendments to the Unemployment Insurance legislation will be required to treat future advances for these purposes as budgetary expenditures in the year in which such advances are made.

A further recommendation of the Study not yet implemented is the disclosure in the Statement of Revenue and Expenditure of the amount of interdepartmental transactions to be eliminated in order to arrive at revenue and expenditure involving third parties. Procedures to appropriately identify these transactions in the Accounts have been initiated.

The special study on the "Valuation of Assets" being undertaken by the Secretariat as mentioned above, will facilitate implementation of the recommendation of the Study concerning the establishment of provisions for losses on specific classes of assets.

We are informed that, as recommended in the Study, the Estimates for 1977-78 include estimates for all non-budgetary loans, investments and advances appropriations and the Government plans to present a comparison of those estimated amounts with the actual outlays for loans, investments and advances in the 1977-78 Public Accounts. No new non-lapsing appropriations are included in the 1977-78 Estimates and existing multi-year votes and instances of net voting of revenues are being phased out as recommended. However, action has not been taken to date to implement other significant recommendations of the Study concerned with the presentation of summary information in the Estimates. The Secretariat does not expect such recommendations to be implemented prior to 1980-81.

Recommendations concerning revolving funds and cost recovery are included in a position paper being prepared by the Secretariat and a draft of a revised Treasury Board policy on this subject is expected to be completed early in 1978.

The Secretariat is also developing a revised policy on commitment accounting which will provide for the implementation of recommendations of the Study in this regard. The target date for completing a draft of this policy is December 31, 1978.

Many of the issues related to the Study's recommendations on Crown corporations are addressed in the Government's Proposals concerning the direction, control and accountability of Crown corporations published in September of this year. My comments on the Government's Proposals are in Part 9.

It is evident from the foregoing that the changes this year represent an initial step towards the full implementation of the recommendations of the Study. Further substantive changes are planned for succeeding years. My Office will continue to monitor the progress in implementing the recommendations of the Study.



**COMMENTS ON THE FINANCIAL STATEMENTS AND OPERATIONS  
OF CROWN CORPORATIONS AND OTHER ENTITIES**

**15.1 Introduction.** My responsibilities include examining and reporting on the financial statements of various Crown corporations and other entities. These are detailed in paragraphs 15.20 to 15.22.

**15.2** My examination in each case was performed in accordance with generally accepted auditing standards as set out by the Canadian Institute of Chartered Accountants. In addition, for agency and proprietary Crown corporations as defined in the Financial Administration Act, my statutory responsibilities under that Act require me to report on the adequacy of the accounting records and on transactions that contravene governing statutes.

**15.3** For all agency and proprietary Crown corporations, revolving funds and other applicable entities, with one exception, my opinion was expressed on the compliance of the financial statements with generally accepted Canadian accounting principles. These principles represent widely accepted and understood standards of accounting and financial statement disclosure which are used by entities for which accrual accounting is appropriate. Departmental Crown corporations and other applicable entities follow accounting principles identical to or closely related to those of the Government of Canada and my reports on these entities referred to the accounting policies set out in the notes to the financial statements.

A number of Crown corporations and other entities have, with the assistance of my Office, significantly improved and standardized their accounting policies and financial statement disclosure. However, considerable scope for improvement still exists and continued improvement will be encouraged.

I have qualified my reports on the financial statements of some of the corporations and other entities because I observed deficiencies in accounting and financial statement disclosure, inconsistencies with the governing statutes or other matters which have an effect on the fairness of presentation of the financial statements. The more significant of these qualifications are noted in the following paragraphs.

**15.4 Airports Revolving Fund - Uncertainty of realization of capitalized development costs.** The assets of the Airports Revolving Fund include the land and development costs of a proposed new airport at Pickering, Ontario. Development costs amounting to \$44 million representing expenditures for interest, planning, site preparation and other related items, but excluding land costs, were capitalized in the expectation that when the airport is built these



costs will be recoverable from operations. Capitalization of development costs was appropriate under the assumption that an airport would be built at Pickering in the near future. However, because the Government has decided to defer the construction indefinitely, the realization of these costs from revenue depends on a future decision to revive the project.

My report to the Minister of Transport on the financial statements of the Airports Revolving Fund was qualified because of the uncertainty of recovering such capitalized development costs through operation of an airport at Pickering.

**15.5 Atomic Energy of Canada Limited - Carrying values of prototype nuclear power stations in excess of estimated realizable value.** Previous Reports (paragraph 16.7 in 1976) drew attention to the excessive carrying values of the Douglas Point and Gentilly I prototype nuclear power stations which were constructed by Atomic Energy of Canada Limited and are operated under agreements with Ontario Hydro and Hydro-Québec respectively. The stations were built primarily to provide information and demonstrate the suitability of the CANDU system. Included in the carrying values are expenditures relating to the Company's Research, Development and Demonstration Program.

The Company has title to both stations and has borne the entire capital costs. Ontario Hydro and Hydro-Québec are committed by contract to offer to purchase the respective stations at prices that are economically viable to them when the stations have been demonstrated to be a safe and dependable source of power.

At March 31, 1977, the carrying values of these stations, shown as plant and property on the balance sheet of the Company, amounted to \$69.8 million (\$77.1 million in 1976) for Douglas Point and \$87.6 million (\$90.2 million in 1976) for Gentilly I. Interest during construction totalling \$15.8 million was written off during the year and charged to the deficit account. It had previously been capitalized. The Company received a parliamentary appropriation of \$85.5 million during the year to cover interest during construction and additional interest accrued to March 31, 1977, on loans used to finance the prototype reactors.

My report to the Minister of Energy, Mines and Resources on the examination of the Company's accounts for the year ended March 31, 1977, was qualified because it is not known whether sales proceeds will be sufficient to recover the carrying values of these prototype stations.

**15.6 Canadian Arsenals Limited - Failure to record fixed assets and depreciation.** Fixed assets with an original cost of \$22.6 million used by the Company, including those purchased with funds provided from its annual parliamentary appropriation, are considered to be owned by Canada and therefore are not recorded as assets on the Company's balance sheet. The Company does not pay for, and has not determined a fair value for, the use of these assets. In our opinion, fixed assets purchased with funds provided by appropriations should be included as assets on the balance sheet and a corresponding amount should be

included under parliamentary appropriations in the statement of deficit. The resulting depreciation charges and any related interest charges would have the effect of increasing the net loss for the year.

In addition, certain of the fixed assets, mainly land and buildings, were paid for by Canada before the Company was established and are still owned by Canada. Non-inclusion of a charge in the statement of income and expense for the use of such assets further understated the net loss for the year and the deficit at March 31, 1977.

My report to the Minister of Supply and Services on the financial statements of the Company for the year ended March 31, 1977, was qualified accordingly.

**15.7 Canadian Arsenals Limited - Inadequate control over inventory.** At March 31, 1977, the Company held approximately \$17 million of inventory on behalf of other government departments. This inventory was not physically counted during the year and perpetual inventory records were not maintained to control the quantities on hand. In addition, the Company did not count one-fifth of its own inventory on hand at March 31, 1977. We were unable therefore to satisfy ourselves that the Company's own inventory was fairly stated on its balance sheet, and that there were no material shortages of inventory held on behalf of other government departments which would result in additional liabilities of the Company. My report to the Minister of Supply and Services on the Company's financial statements for the year ended March 31, 1977, was qualified accordingly.

**15.8 Canadian Broadcasting Corporation - Accrued interest not recorded.** Previous Reports (paragraph 16.10 in 1976) referred to the fact that the Canadian Broadcasting Corporation did not record accrued interest on loans from Canada amounting to \$197.9 million on which payments of principal and interest were deferred until March 31, 1979, by Orders in Council. This matter was disclosed fully in a note to the Corporation's financial statements. Management anticipates that the interest owing will be forgiven by Canada in 1979. However, until such action is taken, the interest constitutes a liability of the Corporation and should be accrued in its accounts as incurred.

Unrecorded interest on such loans for the fiscal year ended March 31, 1977, amounted to \$14.1 million and the total unrecorded liability for accrued interest at March 31, 1977, was \$42.2 million. My report to the Secretary of State on the financial statements of the Corporation was qualified accordingly.

**15.9 Canadian Commercial Corporation - Possible effect on financial position of uncertain outcome of litigation.** The Corporation is a defendant in a legal action instituted in 1975 claiming damages of more than \$6.8 million as a result of the termination of a portion of a contract. The Corporation is contesting the suit but, since the ultimate outcome is uncertain and any possible adverse effect on the financial position of the Corporation unknown, my report to the Minister of Supply and Services on the Corporation's financial statements for the year ended March 31, 1977, was qualified accordingly.

**15.10 Defence Production Revolving Fund - Doubtful recovery of a loan.** In 1973, the Defence Production Revolving Fund made a loan of \$1.7 million to a supplier which had a contract with Canadian Commercial Corporation. Under the terms of the covering agreement, repayment of the loan depended on completion of a contract between the Corporation and its customer, in which the supplier provided certain services. The Corporation considers that its contract was completed on August 4, 1976, so the Fund claimed repayment of the loan on that date. The supplier contends that the contract has not yet been completed and the Fund has launched a legal suit to enforce payment.

The Fund's balance sheet includes the full amount of the loan as an asset and there is no provision for any potential loss. Due to the uncertainties involved, we were unable to satisfy ourselves that the loan as shown on the balance sheet would be collected and my report to the Minister of Supply and Services on the financial statements of the Fund for the year ended March 31, 1977, was qualified accordingly.

**15.11 Defence Production Revolving Fund - Inadequate accounting for public property.** The Defence Production Revolving Fund was established to acquire, store, maintain and transport defence supplies and other strategic materials for the Department of National Defence. In this connection the Fund has entered into contracts with suppliers, several of them involving progress payments over the lives of the contracts.

At March 31, 1977, the Fund's balance sheet included an asset of \$28.3 million representing progress payments to suppliers and inventories held by others on behalf of the Fund. Adequate accounting records have not been kept for determining what portion of the total account balance makes up each of these components. Inventories held by others were not physically counted at the year end and, because of the inadequacy of the records, we were unable to confirm certain progress payments to suppliers. In addition, other inventories of \$774,000 disclosed on the balance sheet were not physically counted at the year end.

We were unable therefore to express an opinion on the amounts shown as progress payments to suppliers and as inventories on the balance sheet of the Fund and my report to the Minister of Supply and Services was qualified accordingly.

**15.12 National Capital Commission - Capital assets recorded at values greater than amounts to be realized on disposal.** Previous Reports (paragraph 16.13 in 1976) drew attention to agreements committing the National Capital Commission to dispose of certain properties under agreements with the Provinces of Ontario and Quebec, the City of Ottawa, and railway companies at amounts substantially less than cost. Property surveys had not been completed and the final determination of the cost and of the proceeds of sale had not been made at March 31, 1977. As a result, the properties to be transferred were shown at cost and not at estimated realizable value on the balance sheet at March 31, 1977. My report to the Minister of State for Urban Affairs on the examination of the Commission's accounts was qualified accordingly.



**15.13 National Capital Commission - Failure to depreciate fixed assets.** The Commission does not depreciate fixed assets that may deteriorate or become obsolete. Such assets include all or portions of parkways, bridges and approaches, recreational facilities, property held for development, administration buildings, vehicles, machinery and equipment and office equipment and furniture. In most cases, the cost of fixed assets is charged to expense entirely in the year of disposal or retirement, rather than during an asset's service period when it produces revenue or benefits the public. My report to the Minister of State for Urban Affairs on the financial statements of the Commission for the year ended March 31, 1977, was qualified because of this failure to provide for depreciation.

The Commission management plans to determine which assets are of a depreciable nature and to establish depreciation policies.

**15.14 National Harbours Board - Absence of adequate documentation supporting estimated useful lives of fixed assets.** The National Harbours Board administers 15 ports and two bridges with fixed assets that were constructed at various dates since the early 1930s. The fixed assets and accumulated depreciation of the Board amounted to \$680 million and \$169 million respectively at December 31, 1976. Depreciation expense was \$11 million for the year then ended.

Marine and other transportation carrier technology, demographic factors, port construction techniques and transportation routes have changed dramatically during the Board's existence with a corresponding impact on the useful economic lives of port facilities. Because the Board has not followed a policy of systematically reviewing the estimated useful lives of its fixed assets after their in-service dates, adequate documentation has not been maintained to support depreciation charges.

In 1976, in order to reflect current technological conditions, the Board applied to fixed asset additions depreciation rates which varied from those applied to similar fixed assets purchased in previous years. Also, the Board decided to review its depreciation policy and rates. This project was not started in 1976 as originally planned because of impending new legislation on ports.

My report to the Minister of Transport on the Board's financial statements for the year ended December 31, 1976, was qualified due to an absence of adequate documentation to support estimates of the useful lives of fixed assets.

The Board began the review of its depreciation policy and rates in early 1977 and expects it to be completed during the current year.

**15.15 The St. Lawrence Seaway Authority - Inadequate provision for depreciation of fixed assets.** Previous Reports (paragraph 16.17 in 1976) drew attention to the fact that The St. Lawrence Seaway Authority did not provide for depreciation on the major portion of its fixed assets. During the year ended March 31, 1977, no depreciation was recorded on \$729.9 million of the \$746.2



million total fixed assets of a depreciable nature. Estimated annual depreciation on fixed assets calculated by the Authority amounted to \$7.3 million and the accumulated unrecorded depreciation is estimated to have been \$141.4 million at March 31, 1977.

The Authority, as part of its refinancing plan introduced in 1977, intends to implement a revised depreciation policy effective April 1, 1978, and to provide for depreciation on all fixed assets using the straight-line method at rates ranging from 1% to 20% per annum based on the estimated useful life of each asset.

Inadequate provision for depreciation on all fixed assets that are susceptible to deterioration and obsolescence is not in accordance with generally accepted accounting principles. My report to the Minister of Transport on the Authority's financial statements for the year ended March 31, 1977, was qualified accordingly.

**15.16 Supply Revolving Fund - Inadequate procedures to control public property.** At March 31, 1977, the value of Supply Revolving Fund inventory at Goose Bay, Labrador, was estimated to be \$1.9 million. No physical count had been undertaken since July 1976 when the Fund assumed responsibility for the inventory and therefore we were unable to satisfy ourselves as to both the quantities on hand and their valuation at March 31, 1977. My report to the Minister of Supply and Services was qualified accordingly.

**15.17 Supply Revolving Fund - Revenue not recorded.** The Supply Administration of the Department of Supply and Services negotiates and administers contracts for the acquisition of materiel and services on behalf of departments and agencies. The revenue earned by the acquisition service in connection with certain large contracts is recognized in the Supply Revolving Fund's accounts evenly over periods of up to 36 months after a contract is awarded. However, the period in which revenues are recognized does not necessarily correspond to the period in which the related costs are charged in the accounts. Costs, including those incurred before a contract is awarded, are charged to expense in the year they are incurred. At March 31, 1977, deferred revenue calculated in accordance with this accounting policy amounted to \$14.8 million and included amounts which should have been recognized as revenue during the year. The Fund had not determined the extent of the overstatement of deferred acquisition contract fee revenue and the corresponding understatement of retained earnings on the balance sheet.

My report to the Minister of Supply and Services on the Fund's accounts for the year ended March 31, 1977, was qualified accordingly.

**15.18 Telelobe Canada - Delayed financial settlements for external telecommunications systems.** Telelobe Canada is the designated Canadian participant in the Commonwealth Telecommunications Organization, the responsibilities of which include the administration of collaborative financial arrangements. These arrangements provide that the aggregate expenses incurred by all partners

in the provision and operation of each facility within the Commonwealth system are apportioned to partners in proportion to the use made by the partners of that facility. Settlements are effected initially between partners during each financial year on the basis of estimated traffic volumes and systems costs, with final settlements being made only after the close of the year on the basis of audited data submitted by each partner.

Some of the 26 partners to the Commonwealth agreement are delinquent in submitting data and at March 31, 1977, partnership accounts had been finalized only up to March 31, 1969. Since final settlements cannot be predicted accurately, the Corporation has, for the years subsequent to 1969, recorded its estimates of the amounts recoverable from the partnership and provided for the repayment of provisional settlements received in excess of those amounts. The Corporation has received provisional settlements amounting to \$71 million for the eight years ended March 31, 1977.

Complete information was not available as to the probable results of the final settlements for years subsequent to March 31, 1969. Because of the uncertainties and the amounts involved, any adjustments arising from final settlements of Commonwealth financial arrangements could have a material effect on the Corporation's financial statements. My report to the Minister of Communications on the Corporation's financial statements for the year ended March 31, 1977, was qualified accordingly.

**15.19 Failure to accrue employee termination benefits.** Employees of Schedule C and D Crown corporations, revolving funds and certain other government entities usually are entitled to receive payment of termination benefits on retirement or separation. These benefits normally accrue to employees with service of more than 10 years and are payable in accordance with governing legislation or collective agreements, or both. The benefits represent a cost of employment and entities which adhere to generally accepted accounting principles should accrue the costs in their accounts over the service periods of the employees concerned and report them in the annual operating results and accumulated surplus or deficit balances.

Although most Crown corporations, certain revolving funds and other applicable entities accrue employee termination benefits properly, others charge the costs to operations of the period in which payments are actually made, usually disclosing the estimated liability for the benefits by way of a note to the financial statements. Where failures to accrue employee termination benefit liabilities had a material effect on the fairness of presentation of financial statements, my reports were qualified. The Crown corporations, revolving funds and other government entities for which my reports were qualified in this respect and the estimated amounts of the unrecorded liabilities accumulated to March 31, 1977, were:

*Departmental and Corporate Audits*

<u>Corporation</u>	<u>Estimated amount of unrecorded liability at March 31, 1977</u>
Canadian Broadcasting Corporation	\$ 37,000,000
The St. Lawrence Seaway Authority	6,425,000
The Seaway International Bridge Corporation, Ltd.	75,000
<u>Other</u>	
Airports Revolving Fund	Not available
Government Telecommunications Agency Revolving Fund	285,000
Public Service Commission Staff Development and Training Revolving Fund	Not available
Race Track Supervision Revolving Fund	108,000
Standards Council of Canada	56,000
Supply Revolving Fund	15,700,000

**15.20 Crown corporations and other entities audited by the Auditor General.**  
Volume III of the Public Accounts contains the financial statements, together with auditor's reports thereon, of agency and proprietary Crown corporations for their fiscal years ended during the year ended March 31, 1977. Of these, I have examined and reported on the following:

Atlantic Pilotage Authority  
Atomic Energy of Canada Limited  
Canada Deposit Insurance Corporation  
Canadian Arsenal Limited  
Canadian Broadcasting Corporation  
Canadian Commercial Corporation  
Canadian Dairy Commission  
Canadian Film Development Corporation  
Canadian Livestock Feed Board  
Canadian National (West Indies) Steamships, Limited  
Canadian Patents and Development Limited  
Canadian Saltfish Corporation  
Crown Assets Disposal Corporation  
Defence Construction (1951) Limited  
Eldorado Aviation Limited  
Eldorado Nuclear Limited  
Export Development Corporation  
Farm Credit Corporation  
Freshwater Fish Marketing Corporation

Great Lakes Pilotage Authority, Ltd.  
Laurentian Pilotage Authority  
Loto Canada Inc.  
National Battlefields Commission  
National Capital Commission  
National Harbours Board  
Northern Canada Power Commission  
Northern Transportation Company Limited  
Pacific Pilotage Authority  
Royal Canadian Mint  
St. Lawrence Seaway Authority  
Seaway International Bridge Corporation, Ltd.  
Teleglobe Canada  
Uranium Canada, Limited

**15.21** As mentioned previously, I am required to examine and report separately on a number of other entities which include departmental Crown corporations, revolving funds, agencies, boards, special accounts and corporations which are not Crown corporations. Of these, financial statements for fiscal years ended during the year ended March 31, 1977, together with my reports thereon, appear in Volume II of the Public Accounts under the heading of their related department, for the following:

#### AGRICULTURE

Agricultural Products Board  
Agricultural Stabilization Board  
Agriculture Revolving Fund  
Canadian Grain Commission  
Race Track Supervision Revolving Fund

#### COMMUNICATIONS

Government Telecommunications Agency Revolving Fund

#### EMPLOYMENT AND IMMIGRATION

Government Annuities Account  
Unemployment Insurance Account

#### ENVIRONMENT

Fisheries Prices Support Board

#### EXTERNAL AFFAIRS

International Development Research Centre  
Passport Office Revolving Fund



FINANCE

Exchange Fund Account

INDUSTRY, TRADE AND COMMERCE

Standards Council of Canada  
Statistics Canada Revolving Fund

NATIONAL HEALTH AND WELFARE

Canada Pension Plan Account  
Canada Pension Plan Investment Fund  
Medical Research Council

NATIONAL REVENUE

Customs and Excise Revolving Fund

PRIVY COUNCIL

Board of Trustees of the Queen Elizabeth II Canadian Fund  
to Aid in Research on the Diseases of Children  
Economic Council of Canada

SCIENCE AND TECHNOLOGY

Science Council of Canada

SECRETARY OF STATE

Canada Council  
Canadian Government Photo Centre Revolving Fund  
National Arts Centre Corporation  
National Film Board  
National Museums of Canada  
Public Archives Central Microfilm Unit Revolving Fund  
Public Service Commission Staff Development and Training  
Revolving Fund

SOLICITOR GENERAL

Royal Canadian Mounted Police (Dependants) Pension Fund

SUPPLY AND SERVICES

The Custodian  
Defence Production Revolving Fund  
Expositions Revolving Fund  
Supply Revolving Fund

TRANSPORT

Airports Revolving Fund

**15.22** Other entities on which I report separately include territorial governments and organizations related thereto, international commissions, employee funds and corporations whose financial statements are consolidated with those of their parent Crown corporations. These entities, which are excluded from the Public Accounts, are listed below:

Army Benevolent Fund  
Canadian Army Welfare Fund  
Canadian Broadcasting Corporation Pension Board of Trustees  
Canadian Forces Personnel Assistance Fund  
Eldorado Pension Plan (1959)  
Government of the Northwest Territories  
Government of the Yukon Territory  
Grimshaw Trucking and Distributing Ltd.  
International Commission for the Northwest Atlantic Fisheries  
International Fisheries Commissions Pension Society  
King George V Silver Jubilee Cancer Fund for Canada  
Northwest Territories Housing Corporation  
Northwest Territories Liquor Control System  
Post Office Guarantee Fund  
R.C.A.F. Benevolent Fund  
R.C.M.P. Benefit Trust Fund  
R.C.M.P. Fine Fund  
R.C.N. Benevolent Fund  
Roosevelt Campobello International Park Commission  
St. Clair River Broadcasting Limited  
Yukon Housing Corporation  
Yukon Workmen's Compensation Fund



16

**OBSERVATIONS REPORTED IN ACCORDANCE WITH THE REQUIREMENTS  
OF SECTION 61(1)(a) to (f) OF THE FINANCIAL ADMINISTRATION ACT**

**Section 61(1)(a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada**

**16.1 Collection of insurance proceeds not followed up.** In June 1975 a shipment to Bangladesh of wood pulp valued at \$246,000, under the Canadian International Development Agency's International Development Assistance Program, was damaged in transit. As the shipment was insured by the recipient, a corporation owned by the Government of Bangladesh, the loss was deemed to be recoverable. In December 1975 the Agency replaced the damaged shipment, although there was no written agreement with the recipient as to the disposition of any insurance proceeds.

The Agency did not follow up recovery of the insurance proceeds until the subject was raised by Audit Office staff in June 1977. Since then, the Agency's representative in Bangladesh has contacted the importer to discuss possible recovery action.

**Section 61(1)(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament**

**16.2 Working capital advance exceeded.** Department of Communications Vote L6a, Appropriation Act No. 4, 1975, 1974-75-76, c. 74, established the maximum amount that may be advanced at any time to the Government Telecommunications Agency Revolving Fund at \$2 million. Our examination of the Fund's accounts and records disclosed that the authorized amount was exceeded in seven months of the current year. At one time, the excess was \$1.9 million.

On August 4, 1977, the Treasury Board approved an allotment from its Contingency Vote, subject to reimbursement when a Supplementary Estimate is obtained, to increase the drawing rights of the Agency Revolving Fund from \$2 million to \$4 million.

**16.3 Revenue improperly credited to a 1976-77 appropriation.** The wording of National Defence Vote 1 provides authority to the Department of National Defence to spend revenue received during the year as authorized by the Treasury Board. In July 1969 the Treasury Board authorized the Department to credit to its votes all income resulting from the provision of goods and services except for three specific items which would continue to be credited to revenue. One of these exceptions is:



Refunds of previous years' expenditures, specifically, refunds received from contractors after audit or adjustment of contracts and refunds of advance payments on contracts.

In November 1975 the Department received an invoice from a foreign supplier in the amount of 285 Swiss francs. The cheque requisition was erroneously prepared for 285,000 Swiss francs and its Canadian dollar equivalent, \$110,865, was remitted to the foreign supplier in January 1976. The error was not detected by National Defence, but in March 1976 the supplier informed the Department of the overpayment and in June 1976 refunded 284,715 Swiss francs, \$111,090. This amount was credited to the Department's 1976-77 appropriation and was used to make further expenditures. As the refund did not relate to the provision of goods and services by the Department and was a refund received from a supplier after adjustment, the amount was applied in an unauthorized manner.

The Department revised its invoice processing procedures in March 1976 and feels confident that a payment error of this sort will not recur.

**16.4 Improper charge to a 1976-77 appropriation.** During the year ended March 31, 1977, the National Film Board incurred expenditures of \$1,441,000 on the program "Challenge for Change/Société Nouvelle", a program which is funded equally by the Board and a number of departments and agencies. Payments from co-sponsors in the amount of \$750,000 were received by the Board with respect to the 1976-77 program, \$650,000 of which was charged to the various 1976-77 parliamentary appropriations of the co-sponsors. Instead of recognizing these contributions as income in its statement of operations for 1976-77, the Board deferred them as advances from customers for work to be performed in future years. In fact, the related work was done during the year ended March 31, 1977. As a result of this deferral, the full amount of the year's expenditures less \$96,000 carried forward from the previous year, a net amount of \$1,345,000, was included in the Board's net expense for the year which was recovered from Secretary of State Vote 70.

This accounting treatment of co-sponsor contributions resulted in a total charge of \$1,995,000 by the Board and co-sponsors collectively against parliamentary appropriations in respect of program expenditures amounting to \$1,441,000. The consequence of not applying the full amount of co-sponsors' contributions against program expenditures was that the Board drew from Vote 70 an amount of \$625,000 (\$1,345,000 less 50% of \$1,441,000), to which it was not entitled and which should have lapsed at March 31, 1977.

**16.5 Payment improperly charged to a 1976-77 appropriation.** Section 30 of the Financial Administration Act permits charging to the prior year's appropriation only payments made during the first 30 days immediately following the end of a fiscal year for goods received or services rendered before the year end or payable by that date under a contractual arrangement.

The Department of Regional Economic Expansion charged to its 1976-77 appropriation an April 1977 payment of \$1.5 million which did not meet the

requirements of Section 30. Under the terms of a loan agreement with Canada, the Newfoundland and Labrador Development Corporation Limited applied on April 13, 1977, for an advance of \$1.5 million on an approved loan of \$20 million. The Department paid this advance on April 14, 1977. The Department states that this amount was charged to 1976-77, since it related to commitments made by the Corporation prior to March 31, 1977.

**16.6 Unauthorized establishment of a private trust fund.** Secretary of State Vote 15a, Appropriation Act No. 1, 1973, 1973-74, c.3, authorized a \$2,529,000 grant to a performing arts organization to enable it to expand existing facilities by acquiring land and constructing new facilities.

By March 31, 1973, amounts totalling \$500,000 had been paid to the organization for acquiring land. In order to prevent the balance of the grant from lapsing in the fiscal year 1972-73, a cheque for \$2,029,000 payable to the organization was issued on March 30, 1973. The Department withheld release of the cheque until it approved the construction plans. On May 30, 1973, the cheque was deposited with a trust company pending acceptance by the Department of the construction plans. The Department retained control of the deposited funds but permitted the organization to make withdrawals, with departmental approval, from the interest earned.

Rising construction costs forced the organization to postpone its construction project and the money remained on deposit for the next three years. The funds earned interest of \$489,000 of which \$270,000 was paid to the organization to cover fees of architects, consultants and others. On April 14, 1976, the organization was advised that the funds currently on deposit with the trust company would have to be returned to the Government. In May 1976 cheques totalling \$2,248,000, including \$219,000 for the balance of interest earned, were credited to the Consolidated Revenue Fund.

The Department acted improperly in requisitioning the cheque for \$2,029,000 on March 30, 1973, and depositing this cheque with a trust company on May 30, 1973, since it had no authority to pay the grant prior to giving its approval of the construction plans.

**Section 61(1)(d) an expenditure was not authorized or was not properly vouched or certified**

**16.7 Unauthorized and excessive advance payments under the Local Initiatives Program.** Manpower and Immigration Vote 10, 1976-77, provided initially for the payment of \$98 million under the Local Initiatives Program. Criteria for the Program approved by the Treasury Board stipulated that the Department should enter into a contract with the sponsors of each project. Included in terms of such contracts were provisions for: advance payments of the estimated costs for the start-up period and the first two months of operations; and such other interim advances as the Minister may approve from time to time.

Disbursements under the Local Initiatives Program are contributions subject to Treasury Board Circular 1971-18 which requires departments to obtain Board approval of the terms and conditions for making payments when contributions are to be made to a class of recipient rather than to a named recipient. A draft revision to the Treasury Board Circular 1971-18 being considered at present provides that:

Agreements concerning contributions may provide for advance payments or progress payments if the terms and conditions approved by the Treasury Board provide for such payments.

As the Program criteria approved by the Treasury Board for 1976-77 and for previous years did not give authority for advance payments, we believe the advance payment provisions of the Department's contracts with project sponsors lacked adequate authority. The Department maintains it has complied with Treasury Board policy on advance payments.

Supplementary Estimates C approved by Parliament in December 1976 increased the funds available for the Program to \$196 million, subsequently reduced to \$191 million. As a result, the Department issued instructions to accelerate payments by increasing the amount of advances from an estimated two months' costs of operations to a level of 85% of project value, unless there was evidence that the financial requirements were significantly less than the amount to be paid. Furthermore, these instructions stated that:

The object of the exercise is to reduce the lapsing of funds to as little as possible, whilst at the same time reducing the risks of overpayment as much as possible.

Acceleration of payments increased advances to projects in 1976-77 by approximately \$27 million, bringing total expenditures on the Program for the year to \$175 million.

In our opinion, considering the cost of money and the increased risk of making irrecoverable overpayments, the action taken was contrary to prudent financial management. Treasury Board authority should be sought for advance payments under the Program and advances should be limited to the immediate requirements of project sponsors or to a reasonable percentage of the total project costs.

**16.8 Improper payment under an incentive agreement.** Between April 1974 and April 1977 the Department of Regional Economic Expansion (DREE) paid \$5.2 million to a company under a regional development incentive agreement. The final payment of \$1.3 million contravened an essential condition of the agreement.

In 1973 DREE offered to pay an incentive based on capital expenditures and jobs created by the recipient company. The offer included a condition that the company install acceptable pollution abatement facilities before any portion of the incentive would be paid. Later that year this condition was relaxed to provide that the final payment of the incentive would be subject to certification by the



Department of the Environment that the company had met an agreed time schedule for implementing its pollution control program. However, in April 1977 DREE made the final payment without the required certification having been issued. On May 3, 1977, the Department of the Environment, in reply to a letter from DREE, stated that it could not provide the certification since the company was delaying implementation of the pollution control program.

DREE states that, although it recognized a condition of the agreement had not been met, it was of the opinion that the final payment should be made since the primary purpose in making the offer had been attained, namely permanent job opportunities had been created in a single industry community. All other conditions had been fulfilled and the company was exploring, through continuing consultations with the Department of the Environment and within the limits of its financial resources, all possible measures to meet pollution abatement requirements.

**16.9 Contribution overpaid by \$68,000.** Secretary of State Vote 20, Appropriation Act No. 3, 1976, 1974-75-76, c. 102, provided for a \$300,000 contribution in 1976-77 to an organization engaged in the promotion, sale and distribution of Canadian books abroad. The contribution was authorized by the Treasury Board on February 26, 1976, and was to be based on 50 per cent of the organization's sales through its book distributing centres abroad in the preceding fiscal year, up to a maximum of \$300,000.

The audited financial statements of the book distributing centres for the year ended March 31, 1976, reported sales of \$463,000. This limited Canada's contribution to the organization in 1976-77 to \$232,000. Since the Department paid the full amount of \$300,000 provided in the Vote, it exceeded its authority by \$68,000, and this amount was improperly charged to Vote 20.

**16.10 Grants paid without proper authority.** Guidelines attached to a Treasury Board Minute dated March 9, 1972, authorized the Secretary of State to make contributions up to a maximum of \$150,000 per project to individuals, organizations and institutions for financing research and pilot projects concerned with the development of bilingualism. Five such projects have been subsidized to the extent of \$2,205,000 over periods of from three to five years. One project received \$299,000 in one year. The amounts paid per project over periods of more than one year range from \$235,000 to \$744,000.

The Department interprets the Treasury Board authority to be an annual limitation of \$150,000 per project. We do not agree with this interpretation and must therefore conclude that payments of \$1,455,000 have been made without proper authority from the Treasury Board.

**16.11 Unauthorized payments to provinces for prison care.** Solicitor General Vote 5, Appropriation Act No. 4, 1973, 1973-74, c.16, authorizes the Minister, subject to the approval of the Governor in Council, to enter into an agreement



with any province for the confinement in that province's institutions of any persons sentenced or committed to a federal penitentiary. Pursuant to this authority the Solicitor General has entered into two types of agreements.

The first type of agreement, entered into with certain provinces, is made under the authority of P.C. 1973-10/2908 of October 4, 1973, and deals with the transfer of custody from provincial institutions to penitentiaries and vice versa of persons sentenced under the criminal law of Canada. For persons sentenced to two years or more who are a responsibility of the Canadian Penitentiary Service but are transferred to a provincial institution, the provinces are to be paid on a per diem basis for the care of each person involved.

The second type of agreement is made under the authority of P.C. 1974-9/1699 of July 30, 1974, and covers the maintenance of paroled inmates whose parole has been suspended and who have been remanded into custody until their suspension is cancelled or their parole is revoked in which case they are required to return to a penitentiary. The provinces are to be paid on a per diem basis for their custodial care.

Our examination of payments to the provinces under these agreements for the fiscal years 1975-76 and 1976-77 disclosed that:

- Under the transfer of custody agreements, the provinces were billing and were being paid from the date of sentencing and not from the date when the Canadian Penitentiary Service assumed responsibility for the inmate, which takes effect from the date that the Service is notified by the provincial institution that an inmate's appeal period has expired and that he can be transferred to a federal institution. This practice has resulted in an estimated overpayment of \$622,000.
- The provinces have been paid about \$41,000, also under the transfer of custody agreements, for the care of parolees whose terms of parole required them to stay in a provincial institution on weekends although the agreements make no provision for such payments.
- Although the agreements covering reimbursement for the care of paroled inmates cover only the period during which paroles have been suspended, the provinces have been paid about \$106,000 for the maintenance of parolees after their parole suspensions have been terminated as a result of parole cancellations or sentences for other crimes.

The Department has informed us that additional agreements with the provinces will be entered into where necessary, that existing agreements will be amended to clarify the terms and conditions under which payments are to be made to provinces, and that procedures will be documented and instituted to ensure that payments are made only as of the date the Canadian Penitentiary Service assumes responsibility for inmates in provincial institutions. We have also been informed that the Department will make all possible efforts to recover all identified overpayments.

**16.12 Unauthorized payments under long-term contract.** The Department of Transport has entered into a long-term \$20 million contract for constructing and installing air traffic control equipment. The contract terms provide for progress payments on the basis of completion of milestones or goals as defined in the contract. An examination of payments under the contract disclosed that progress payments exceeding \$600,000 were made to the contractor before the milestone completion dates.

Department representatives say that as the project was two years behind schedule, advance payments were made to assist the contractor's cash flow requirements. They also state however that adequate precautions have been taken to ensure that the Department pays only for work already performed by the contractor.

**Section 61(1)(e) there has been a deficiency or loss through the fraud, default or mistake of any person**

**16.13 Losses through the fraud, default or mistake of any person.** Section 61 (1)(e) of the Financial Administration Act requires the Auditor General to report annually to the House of Commons every case in which he has observed that there has been a deficiency or loss through the fraud, default or mistake of any person.

Section 98(3) of the Act requires every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, to be reported annually in the Public Accounts. In accordance with this requirement, Volume I of the 1976-77 Public Accounts details such losses in Section 11. Cases reported in 1976-77 may be summarized as follows:

	<u>Number</u>	<u>Losses</u>	<u>Recoveries</u>	<u>Net Loss</u>
Anti-Inflation Board	2	\$ 331	\$ 193	\$ 138
Consumer and Corporate Affairs	1	250	-	250
Environment	2	382	382	-
Indian Affairs and Northern Development	3	10,507	145	10,362
Labour	1	2,214	2,214	-
Post Office	90	316,251	89,318	226,933
Revenue Canada - Customs and Excise	2	683	-	683
Taxation	2	410	197	213
Solicitor General - RCMP	3	250	250	-
Supply and Services	1	1,693	-	1,693
Tariff Board	1	408	408	-
	<u>108</u>	<u>\$ 333,379</u>	<u>\$ 93,107</u>	<u>\$ 240,272</u>

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Additional losses of \$5,740 on nine cases reported on in previous years are also included in the detailed listings in Section 11.

Losses caused by default or neglect of postal employees are chargeable to the Post Office Guarantee Fund and losses suffered by reason of defalcations or other fraudulent acts or omissions of public officers in other departments are chargeable to the Public Officers Guarantee Account. During 1976-77 the amounts charged to the Fund and to the Account were \$38,253 and \$2,084 respectively.

During our examination, we identified no further losses by reason of defalcations or other fraudulent acts or omissions of public officers except for cases still under investigation at March 31, 1977, and therefore not reported in the 1976-77 Public Accounts. They will be reported when the investigations are completed.

In addition to losses involving public officers, losses are inevitable in administering the numerous and complex programs of the Government, some through the fraud, default or mistake of individuals outside the Public Service. These, when encountered in our test examinations, are brought to the attention of the administering department and, if significant, commented on in our Report.

**OTHER CASES THAT THE AUDITOR GENERAL CONSIDERS SHOULD BE BROUGHT TO THE NOTICE OF THE HOUSE OF COMMONS IN ACCORDANCE WITH SECTION 61(1) OF THE FINANCIAL ADMINISTRATION ACT**

**17.1 Questionable practices - Introduction.** During the past year, deliberations in Parliament and testimony before the Public Accounts Committee with respect to the serious issues raised by the commercial practices of both Atomic Energy of Canada Limited and Polysar Limited have led to clarification of the standards of conduct which should be followed by Government organizations. In particular, the policy and guidelines announced by the Government in the House of Commons in December 1976, and the recommendations made by the Public Accounts Committee in its report to the House of Commons on Polysar Limited dated July 7, 1977, have done much to emphasize and clarify the standards of business conduct expected of Government corporations, agencies and departments.

In the light of this, our Office has modified its audit procedures to reduce the possibility that such practices might go undetected. Furthermore, we have expanded the scope of letters of representation to refer specifically to the new Government policy and guidelines. Departments, agencies and corporations provide such letters of representation from top management to assure the Auditor General that he has been made aware of all significant matters that should be brought to his attention in connection with his audit examination.

Our audit examinations during the current year identified questionable practices by one Crown corporation, the Canadian Saltfish Corporation, and by one department, the Department of External Affairs. In both cases, the Ministers concerned have been notified and the situations have been reviewed by the appropriate senior officials as well as, in the case of the Canadian Saltfish Corporation, by its Board of Directors. Nothing came to our attention during the course of our examinations which indicated financial impropriety for personal gain by members of the Corporation or the Department. The Office will continue to monitor these situations. Details are set out in the following two paragraphs.

**17.2 Questionable trade practices.** The Canadian Saltfish Corporation has engaged, during the current year, and in prior years, in questionable trade practices that have included inflation of sales invoices and payments of rebates in accordance with customers' instructions. In some instances, cheques relating to such payments were prepared in the name of a payee other than the customer. Some cheques also were deposited in bank accounts outside the country of the customer.

Our audit examination revealed that the Corporation artificially increased sales invoices relating to approximately \$8.0 million of the Corporation's net sales of \$15.4 million for the year ended March 31, 1977, and related rebates amounted to approximately \$400,000. As required by Section 77(1) of the Financial



Administration Act, I called attention to this matter in my report to the Minister of Fisheries and the Environment on the examination of the Corporation's accounts. Corporate management has assured us that the questionable trade practices are discontinued and we have seen clear instructions to this effect.

**17.3 Questionable lease arrangements.** The Department of External Affairs enters into lease agreements for rentals of property for embassies and staff quarters throughout the world. Normally, these lease agreements are straight-forward. However, departmental files disclose that, in certain countries, where accommodation is particularly difficult to obtain and where lessors are subject to stringent tax, foreign currency and/or lease regulations, double leases and other unusual leasing arrangements have been used. The related payments, including lump sum cash payments, have been made within and outside host countries in both local and foreign currencies. Departmental correspondence indicates that these practices, which commenced some twenty years ago, have been considered necessary to secure any accommodation, or accommodation at a reasonable cost, in these countries.

Questionable payments identified in our audit of the Department's records of rentals paid during 1976-77, totalled \$508,000 of which \$330,000 was paid in cash and \$178,000 by cheque. The Under Secretary of State for External Affairs has assured us that the questionable leasing practices are being discontinued and we have seen clear instructions to this effect.

**17.4 Overpayment of subsidies to a railroad.** The Canadian Transport Commission subsidizes eligible railway companies under the subsidy provisions of the Railway Act, *R.S., c. R-2*. These subsidies cover losses for operating uneconomic branch lines and passenger-train services, which the railways are required to continue in the public interest, and loss of gross revenues from the carriage of grain and flour at rates prescribed by statute, which are lower than those determined by the Commission, for movements in Eastern Canada, in order to encourage the continued use of Eastern ports for the export of grain and flour.

Operating deficits of the Canadian National Railways, after taking into account subsidies received from the Commission under the provisions of the Railway Act, have been paid by parliamentary appropriations. The fiscal year of the Company ends on December 31 and deficits for the 1974 and 1975 years of \$37.7 million and \$16.4 million were paid by appropriations (1974-75 Transport Vote 68d; 1975-76 Transport Vote 63b). The Company reported a profit for 1976.

In January 1977, when processing final subsidy claims by the Company for 1975, the Commission determined that subsidy overpayments totalling \$22 million had been made to the Company for 1974 and 1975. The \$22 million was recovered before March 31, 1977, by adjusting advance subsidy payments to the Company for 1977. However, the Company's deficit for 1974 and 1975 will increase by that amount and an appropriation will now have to be sought to pay to the Company the amount of \$22 million.

**17.5 Serious weaknesses in the administration of the Fishing Vessel Insurance Plan.**

The Fishing Vessel Insurance Plan that the Department of the Environment operates through its fisheries offices to provide insurance coverage for fishing vessels, has not properly set out its objectives or its accounting procedures in writing. As a result, our audit disclosed serious weaknesses in the Plan's administration, including the following:

- Effective control was not maintained over the collection and deposit of insurance premiums.
- Policy forms were not controlled.
- Written guidelines had not been issued for the appraisal of vessels and the acceptance of risks.
- There was a lack of evidence that recovery action was taken, where appropriate.
- Documentation available for the audit of claims was inadequate.
- Insurance application forms were not always signed by the owner of the vessel.
- Information on claim forms was incomplete.
- Evidence was not available that appropriate action had been taken on the recommendations made by a consultant in 1973 with respect to the financial aspects of the Plan. For instance, no action had been taken on his recommendations that the Plan's accounts be presented on an accrual basis with unearned income being properly segregated, and that detailed audits be made of claims being paid.

These weaknesses were brought to the attention of the Department, as were the following questionable insurance payments:

- A loss payment of \$5,750 was made to a third party under an insurance policy issued on a retroactive basis 11 months after the apparent occurrence of the loss, and without satisfactory evidence on file in support of the claim. The premium of \$860 covering the vessel and two others was collected only after the loss was reported, although the vessel had been inspected at the time the coverage was deemed to have begun.
- All vessels insured under the Plan are inspected. However, there is no requirement to submit proof that any defects noted by the inspectors have been rectified. In one instance where a fire loss of \$160,000 was paid there was no information on file about the disposition of the defects cited in the inspector's report, including the facts that a fire extinguisher in one location was empty and that an additional extinguisher was required in another location.

The Department has informed us that action has already been taken with respect to many of the observations noted and that the remainder will be resolved in conjunction with a major review of the Fishing Vessel Insurance Plan now being undertaken.

**17.6 Canada Pension Plan - Projected deficiency.** The Canada Pension Plan has been operating on a current basis with benefits being paid from current contributions. The excess of receipts over disbursements is available for loans to the provinces. However, the assets in the Canada Pension Plan Account and future contributions, based on the present rate of contributions and scale of benefits, will not be sufficient to meet future pension obligations. The accumulating aggregate amount of this deficiency has not been actuarially determined or reported.

Current actuarial projections, assuming the present contribution rate of 3.6% of contributory earnings and annual increases of 5.5% for wages and 3% for prices, indicate that in 1983 annual benefits will exceed annual contributions. With interest earnings, the Canada Pension Plan Investment Fund will continue to increase until 1990 but part of the annual interest revenue will be needed to finance pension benefits. After 1990 the loans to the provinces will have to be recouped until, by the year 2000, the Fund will be exhausted unless increases to the contribution rates are made in the meantime.

The financial statements of the Canada Pension Plan Account and the Canada Pension Plan Investment Fund for the year ended March 31, 1977, in accordance with the provisions of the Canada Pension Plan, *R.S., c. C-5*, show only transactions and changes in the balances of these accounts. In my report to the Minister of National Health and Welfare on these statements, I drew attention to the fact that they do not recognize the unfunded liabilities of the Canada Pension Plan nor the adequacy of the balances to meet, on an actuarial basis, the future obligations of the Plan.

**17.7 Cost of vacant office space.** In 1976, the Department of Transport, which was located in Tower "C" of Place de Ville in Ottawa and needed additional space in the same building, took over a major portion of Tower "A" when it was vacated by another department. The Department began relocating staff to Tower "A" in mid-1976, leaving large areas vacant in Tower "C" which were to be backfilled as alterations to meet organizational requirements were completed.

The Department of Public Works began the required alterations in Tower "C" but in September 1976 froze all such work pending Treasury Board approval. In October the Board directed that no alterations proceed until a lease for the building was signed. A formal lease agreement with the owner was not signed until March 1, 1977. The Department of Transport did not relocate into the vacant space until alterations were completed and as a result more than 90,000 square feet of rented space remained unoccupied for six to 10 months at a cost of approximately \$400,000.



**17.8 Inadequate procedures for loans of equipment to municipal airports.**

To assist municipalities, the Department of Transport lends surplus used maintenance equipment, such as snow plows and snow blowers, to municipally-owned or operated airports. At the time of our audit, equipment costing \$291,800 was on loan to 11 municipal airports in the Ontario Region. These loans were made without the approval of the Governor in Council, contrary to Section 52 of the Financial Administration Act which governs the loan of public property. In addition, the loans were made without specific agreements listing the equipment and describing the terms and conditions of the loans.

Departmental procedures should be established to ensure that the necessary executive authority is obtained before lending any equipment or other public property. Such loans should be made only after completing a suitable formal agreement that, among other things, adequately describes the equipment and protects the Crown from damage claims by third parties arising from the lessee's use of the equipment.

The Department is developing a standard-form lease agreement, which includes insurance requirements, to cover the loan of equipment to municipalities. This agreement will be used for present equipment on loan and for any additional loans.

**17.9 Payments for unused hotel accommodation.** In May and June 1976 the Canadian Habitat Secretariat was host of the United Nations Conference on Human Settlements. In 1975 a number of Vancouver hotels were requested to hold blocks of rooms for delegates until approximately one month before the opening of the Conference. Due to delays by foreign governments in advising of hotel requirements, it was necessary by early May 1976 for the Secretariat to guarantee payment to the hotels for holding reservations. Also, in February 1976, the Secretariat undertook to consider claims from a university if accommodation reserved for visitors to the non-governmental Habitat Forum remained unused.

Because a number of delegations to the Conference chose alternative accommodation and the Habitat Forum attracted fewer visitors than expected, the Secretariat received claims from both the hotels and the university.

Legal advice was obtained and, following negotiations, the Treasury Board approved payments totalling \$503,000 as settlements for unused accommodation. They were charged to the 1976-77 appropriation of the Secretariat.

**17.10 Weaknesses in control over Unemployment Insurance benefit payments.** My report to the Minister of Employment and Immigration on the financial statements of the Unemployment Insurance Account for the year ended December 31, 1976, disclosed that the Commission has established that it has paid benefits to claimants who were not entitled to such benefits and that in a significant number of instances it has not adhered completely to its administrative procedures in establishing the continuing eligibility of claimants.



Our evaluation of the Benefit and Overpayment System of the Commission revealed control weaknesses that could lead to the payment of benefits through error or fraud. Our general review indicated that some of the Commission's controls are operating effectively and that many benefit overpayments are being regularly detected and, in most cases, recovered. However, the System lacks sufficient control procedures to ensure adequate validation of claims for initial and continuing benefits. Weaknesses in the control and balancing of data throughout the entire system could allow unauthorized transactions to be entered or cause valid transactions to be misplaced without being detected.

To determine the effect of these weaknesses, we conducted extended audit procedures in the area of benefit payments. Based on a statistical sample of claimants to whom benefits were paid in 1976, the amount of overpayments not previously identified by the Commission's regular control activities is approximately \$95 million. These overpayments are in addition to an amount of \$5 million representing the net loss for the year on overpayments identified by the Commission's control activities. In addition, our tests disclosed failures to adhere to the Commission's administrative procedures for the follow-up of the continuing eligibility of claimants. Some portion of the related payments could represent further overpayments.

The Commission considers that, because of the large number of claimants to be monitored and the requirement for prompt service, its control procedures must be applied selectively rather than universally and it must rely mainly on control activities which take place after claimants have begun to receive benefits. Although the Commission has been increasing its efforts to improve adjudication by interviewing selected claimants at the time or very shortly after claims have been filed, we believe that the effectiveness of this interview program should be still further improved. Moreover, additional preventive controls should be established to reduce the amount of overpayments.

The Commission is seeking ways to improve financial controls and to verify more effectively the initial and continuing eligibility of claimants. My Office will monitor the results achieved.

18

COMMENTS ON MATTERS DEALT WITH IN PREVIOUS YEARS' REPORTS

**18.1 Introduction.** The Audit Office encourages prompt remedial action by the appropriate government departments, agencies and Crown corporations on detected deficiencies and irregularities. To this end we maintain constant liaison with the officials concerned and monitor their progress in the implementation of corrective action. Where action has not been taken on matters arising from our regular audits and disclosed in previous Reports, we report the circumstances to the House of Commons in this Part of the Report together with the reasons given by the officials concerned.

Parts 8 and 9 of this Report contain our comments on actions taken during the past year to implement the major recommendations of the Financial Management and Control Study which were included in the Supplement to my 1975 Report and in my 1976 Report.

Parts 10 to 12 include comments on actions taken on the Special Audits and Inquiries findings included in my 1976 Report.

**18.2 Reports of the Treasury Board Secretariat.** A Treasury Board document dated March 31, 1977, entitled Review of Treasury Board Actions on Reported Deficiencies in Financial Management and Control Practices, was tabled at the Public Accounts Committee meeting of April 26, 1977, and is included as Appendix F to this Report. This document describes actions taken by the Treasury Board Secretariat on the 34 main recommendations of the Financial Management and Control Study included in my 1975 Report and contains Audit Office comments on these actions.

On May 24, 1977, the Secretary of the Treasury Board advised the Chairman of the Standing Committee on Public Accounts of actions reported to the Treasury Board by departments and Crown corporations on the matters raised in Parts 15 to 19 of my 1976 Report. This letter was tabled at the Committee meeting of June 23, 1977, and is included as Appendix G to this Report. These reports to the Public Accounts Committee from the Treasury Board Secretariat greatly assist the Committee and my Office in following up and monitoring action the Government has taken or intends to take on matters raised in my Annual Reports.

Action has yet to be reported on the following matters raised in my 1976 Report:

<u>Paragraph Number</u>	<u>Title</u>
9.5	Office Accommodation - Control and administration of accommodation

- 9.6 Office Accommodation - System of accounting for costs of accommodation
- 13.8 Grants and Contributions - Canadian International Development Agency - Trainees' obligations
- 13.9 Grants and Contributions - Canadian International Development Agency - Field audit
- 13.12 Grants and Contributions - External Affairs - Parliamentary control over assessed contributions
- 16.10 Canadian Broadcasting Corporation - Accrued interest not recorded
- 16.11 Company of Young Canadians - Severance payments to volunteer members
- 16.18 Failure to accrue employee termination benefits
- 17.1 Failure to recover costs of trans-border highway services between Canada and the United States
- 18.1 Payments to agents inadequately documented
- 18.5 Land rental paid under long-term lease for property not being occupied
- 18.6 Low return on long-term mortgage credit to farmers
- 19.6 Income tax owing by non-residents
- 19.7 Insufficient penalty for late payment of income tax
- 19.8 Errors in Public Service Superannuation Account pension and contribution calculations

**18.3 Inadequate control of payments to fishermen and fish processors.** Paragraph 18.4 of our 1976 Report drew attention to inadequacies in control over payments to fishermen and processors of fishery products under a program instituted by the Department of the Environment during the year ended March 31, 1976. The program was aimed at rehabilitating the groundfish industry and the 1975-76 payments to fishermen amounted to \$21.5 million and to processors \$16.9 million. We stated that the Department had not introduced centralized uniform rules and procedures to govern such payments and it was only later in the year that it requested internal audits of the regional offices which processed the claims by fishermen and processors. As a consequence corrective action called for by the audits could not be taken by the year end and an additional \$1 million was paid because payments were not discontinued as soon as the total groundfish landings eligible for assistance was reached.

Because of the numerous internal control weaknesses noted at these regional offices we reported that we were unable to satisfy ourselves that the bulk of the expenditures made under the program were appropriate.

Last year the Department acknowledged that weaknesses had existed in the program. It stated that due to the critical conditions in the industry the Department had to consider the objectives of the program first and deal with accountability only after the initial pressure was relieved. It said positive measures were taken to ensure that the same weaknesses would not be repeated in 1976-77 and that it proposed to conduct field audits of processing plants for both 1975-76 and 1976-77.

Procedures were introduced by the Department in 1976-77 to correct the weaknesses noted in the previous year. It adopted the practice of auditing all processors at least once every three years. The audits of 1975-76 claims from 39 of approximately 102 plants disclosed overpayments totalling \$194,000. The processors concerned were advised of the results and the amounts are to be recovered.

**18.4 Land rental paid under long-term lease for property not being occupied.**

Paragraph 18.5 of my 1976 Report drew attention to the fact that the Department of the Environment had decided not to develop a 55-acre tract of land in Greater Vancouver for which it had been paying \$241,400 in annual rental since 1974 under a long-term lease expiring in 2045. On May 31, 1976, the land was identified as excess by the Department of Public Works on behalf of the Department of the Environment and negotiations began with the owner concerning acceptable alternative uses.

We also reported that:

- The Department of the Environment had paid \$4 million to the previous tenant to acquire the leasehold interest in the property and leased back approximately 9.5 acres at an annual rental of \$1, the value of which at that time was estimated to be \$702,000.
- A new lease had been negotiated with the owner covering the period to 2045 and providing for an annual rental of \$241,400, negotiable every five years but never to be less than \$241,400 per year. This compared with the annual rental of \$48,180 paid by the previous tenant, renegotiable every 20 years over the same period.

During the year ended March 31, 1977, the Department again paid the annual rental of \$241,400. Although no alternative uses for the property have yet been found, the Department reports that discussions with the owner are continuing.



**18.5 Payment to Manitoba improperly charged to a 1975-76 appropriation.**

Paragraph 17.2 of my 1976 Report drew attention to the fact that the Department of the Environment had improperly charged a 1975-76 appropriation with a payment of \$463,000 to the Province of Manitoba under an agreement with the Province to share equally the costs incurred in rehabilitating and developing a wildlife sanctuary. We further reported that of \$1,125,000 contributed by Canada the last reported audited costs, to June 30, 1975, amounted to \$84,000 of which Canada's share was \$42,000.

The Department made no further payments to the Province under this agreement. Audited costs to March 31, 1977, were \$521,000 of which Canada's share was \$260,000. Thus the balance of the total contributions by Canada which is being held by the Province without interest was \$865,000 at March 31, 1977. The Department states that implementation of the project has been affected by delays that have been encountered in acquiring property in Manitoba. The Department is requesting the Province to submit either a progress claim or a commitment of imminent expenditures. Otherwise recovery action will be taken.

**18.6 Weaknesses in the administration of the Fisheries Prices Support Board.**

Paragraph 16.12 of our 1976 Report referred to various weaknesses in the administration of the Fisheries Prices Support Board:

- Governor in Council approval, as required by the Fisheries Prices Support Act, *R.S., c. F-23*, had not been obtained for the prices at which fishery products costing \$2.5 million had been purchased. The Board indicated that it would seek this approval retroactively.
- The absence of documentation supporting the establishment of prices had prevented us from satisfying ourselves that the Board had complied with the requirement of the Act that, in prescribing prices for the purchase of fisheries products and in determining the level of deficiency payments, it endeavour to secure a fair relationship between the returns from fisheries and those from other occupations.
- Documentation and procedures for processing claims had been inadequate.
- The Board had not been auditing producers' records to validate their claims.

A follow-up of these weaknesses during our 1976-77 audit disclosed the following:

- The Board obtained retroactive Governor in Council approval of the prices at which it had purchased fishery products costing \$2.5 million.
- In compliance with the requirement of the Act that the Board endeavour to secure a fair relationship between the returns from fisheries and those from other occupations, the Board recently began

comparing incomes from fisheries and those from similar occupations when establishing prices. However the purchases and deficiency payments of 1976-77 were made prior to the Board initiating this comparison.

- Although the Board has proper documentation to support its 1976-77 payments, it has not yet set forth fully the detailed procedures to be followed in making purchases and deficiency payments.
- Audits of producers' records to validate their deficiency payment claims have not yet been undertaken.

The Board states that it is preparing procedures relating to purchases and deficiency payments and that they are expected to be implemented in 1977-78. At present, it is arranging for the audit of producers' records in order to validate their 1976-77 deficiency payment claims and it intends to have similar audits performed in the future.

**18.7 Improper accounting and control procedures in the Indian Arts and Crafts Central Marketing Service Revolving Fund.** Indian Affairs and Northern Development Vote L18b, Appropriation Act No. 1, 1972, 1972 c. 1, authorized the establishment of a revolving fund to finance the Indian Arts and Crafts Central Marketing Service. My 1976 Report (paragraph 18.7) drew attention to major deficiencies in the accounting procedures used for the Revolving Fund before June 30, 1975, and to the fact that an agreement had been entered into with a Company to manage the Service effective July 1, 1975. We also expressed the opinion that certain transactions relating to the Central Marketing Service were incorrectly charged to Indian Affairs and Northern Development Vote 5 and that the Company improperly retained receipts from sales of merchandise that should have been deposited to the credit of the Receiver General as required by the Financial Administration Act.

Based on our review of accounting records and procedures, we were unable to determine whether or not we would be able to express an opinion on any financial statements of the Fund for the year ended March 31, 1977, for the following reasons:

- The Department continued to charge part of the Fund's operating costs to Vote 5, contrary to the requirements set out in Vote L18b that all operating and capital expenditures of the Central Marketing Service be charged to the Fund. As a result the accumulated deficit was substantially understated.
- The accounting records maintained by the management Company for the Central Marketing Service were not segregated from its own and were not reconciled regularly with the Revolving Fund control account. As a result, we were unable to determine to what extent this mingling of accounts distorted the financial statements of the Fund.

- No physical count of merchandise inventory was made at March 31, 1977. Although a count had been made at December 31, 1976, we were unable to satisfy ourselves as to the quantities and valuation of the inventory of the Revolving Fund at the year end due to the lack of adequate accounting controls and to inadequate security procedures.

In addition the Fund did not comply with legislative and regulatory requirements as follows:

- The authorized limit of the Fund at any one time is \$1.4 million. At March 31, 1977, the amount drawn down by the Fund and not repaid was \$1.8 million.
- The management agreement with the Company provided that working capital for the operation of the Central Marketing Service would be provided solely through accountable advances. Instead, the Company continued to retain public monies received from sales of merchandise amounting to approximately \$1.4 million contrary to the management agreement and the Financial Administration Act.
- The Company entered into contracts which were neither authorized by the Minister as required by Section 27 of the Financial Administration Act nor approved by the Treasury Board as stipulated in the Government Contracts Regulations.
- Advances were paid to suppliers without contractual authority, contrary to Section 27 of the Financial Administration Act. The amount of outstanding advances at March 31, 1977, was approximately \$52,000.

The Department and the Treasury Board Secretariat are studying alternative methods of operating the Central Marketing Service.

#### **18.8 Inadequate accounting for an appropriation and Indian band funds.**

Previous Reports (beginning with paragraph 81 in 1967, and most recently in Appendix E in 1976) referred to the Department of Indian Affairs and Northern Development policy of transferring to Indian bands the responsibility for managing public funds provided for various band programs and, in accordance with Section 69 of the Indian Act, R.S., c. I-6, for managing band revenue moneys. One of the conditions of the transfer is that the bands furnish the Department with yearly audited financial statements.

In 1975-76, 555 bands were responsible for managing approximately \$140 million. Our review of 384 audit reports submitted on these funds during 1976-77 disclosed that in 141 cases an opinion had been denied, 102 opinions were qualified and in 10 reports no opinion was expressed.

Departmental officials have advised us that substantial improvement in band financial operations can be expected only over the long-term and, to that end, the number of band financial advisers has been increased.

**18.9 Post Office retail activities.** Previous Reports (paragraph 62 in 1974) noted that the Post Office Department was engaged in a program of selling various non-postal items to the public. We questioned whether this fell within the powers of the Postmaster General under the Post Office Act, *R.S., c. P-14*.

This matter was discussed by the Public Accounts Committee on April 29, 1975. In its Fourth Report to the House dated December 18, 1975 the Committee concluded that the Post Office had been acting illegally in carrying on the sale of merchandise without the necessary authorization by Parliament and recommended that the Post Office Department obtain the necessary authorization to carry on this activity.

Although the sale of items such as mint coin sets, stamp hobby kits and wrapping materials has been discontinued, the Philatelic Service of the Post Office continues to sell stamp mounting pages, first day covers and souvenir collections without the specific approval of Parliament. Proposed amendments to the Post Office Act have not yet been introduced in Parliament to remove any ambiguity or doubt that may exist as to the authority of the Post Office to manufacture and sell philatelic and related products.

The Department has informed us that the delay in obtaining legislation on this matter is due mainly to its desire to present all proposed amendments to the Post Office Act in the same Bill. This cannot be done until certain proposals related to other postal operations have been fully resolved.

**18.10 Inadequate guidelines for determining ferry deficits.** Paragraph 18.10 of our 1976 Report drew attention to the lack of a formal agreement covering the terms and conditions for the operation of the Newfoundland coastal service, the Prince Edward Island ferry service and the North Sydney-Port aux Basques ferry service. These services are operated for the Department of Transport by the Canadian National Railways (CNR). The Department has underwritten deficits calculated annually by CNR but, in the absence of a formal agreement, has been unable to verify the deficits charged to its appropriation each year.

Operating deficits charged to departmental appropriations were \$85.8 million in 1976 and \$95.3 million in 1975.

The Department has advised us that agreements are being drawn up to establish the terms and conditions for the operation of the required services and that a subsidiary company of CNR will be formed by January 1, 1978, to operate the services.





## **ORGANIZATION AND ACTIVITIES OF THE AUDIT OFFICE**



## ORGANIZATION AND ACTIVITIES OF THE AUDIT OFFICE

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## **ORGANIZATION AND ACTIVITIES OF THE AUDIT OFFICE**

### **Introduction**

**19.1** Official proclamation of the Auditor General Act as of August 1, 1977, ranks as the most significant event affecting the Audit Office during the past year or for many years. This clarification of the duties and responsibilities of the Auditor General and of his independence, now incorporated in the laws of Canada, is of landmark significance not only to the Audit Office, but to Parliament and to all Canadians. All concerned can expect to benefit from the better means provided to the Auditor General for fulfilling his function as a servant of Parliament. The text of the Act is contained in Appendix B of this Report.

While the Auditor General Act is expected to be the major influence in future years, the Audit Office was governed during the period covered in this Report by the terms of Part VII of the Financial Administration Act, reproduced in Appendix A of the Report. Section 58 requires the Auditor General to form an opinion on the appropriateness of financial rules, procedures and authorities and whether or not there has been a complete and accurate accounting for public money and property. Section 60 requires the Auditor General to certify the main financial statements of Canada, and Section 61(1) requires the reporting to the House of Commons of irregularities disclosed during examinations. Section 62 requires the Auditor General to make specific inquiries whenever the Governor in Council or the Treasury Board directs. Under this Section the Audit Office has been conducting a continuous examination of the Oil Import Compensation Program, referred to in Part 10 of this Report.

The Auditor General also expresses an opinion on: the accounts of 33 Crown corporations in accordance with Section 77 of the Financial Administration Act; 34 separate entities of the Government of Canada, including special accounts and revolving funds which are required to submit their annual financial statements to the Auditor General for examination; various international commissions and employee funds; the accounts of the Governments of the Yukon and Northwest Territories and affiliated organizations; and the Accounts of the United Nations and several of its agencies and affiliated organizations.

### **Organization and Professional Activities**

**19.2** On March 1, 1977, some further developments in the plan of organization of the Office became possible. The professional audit staff was organized under four separate groups, each headed by an Executive Director, as follows:

## *Organization and Activities of the Audit Office*

<u>Group</u>	<u>Executive Director</u>
Parliament and Central Agencies Departmental and Corporate Audits Special Audits and Control Evaluations International Audits	Michael H. Rayner, C.A. Raymond M. Dubois, C.A. D. Larry Meyers, P. Eng., C.A. Edward R. Rowe, C.A.

Concurrently regional offices have been given more responsibility under the management of persons appointed to newly established regional director positions. These changes are designed to enhance the ability of senior officers to discharge effectively their designated professional responsibilities.

The Executive Committee of the Office, comprising the Auditor General, the Deputy Auditor General, the two Assistant Auditors General and the Special Adviser to the Auditor General, has the overall responsibility for the direction, planning and administration of the Office and provides guidance and makes decisions regarding professional issues referred to it by other members of the senior management group.

**19.3** The Audit Office makes every effort to establish a career pattern for its staff similar to that in the major public accounting firms. Recruitment is directed primarily towards promising university graduates and qualified accountants. Training and manpower allocation activities assist these staff members to become professionals of high calibre, with the expectation that many will move on after several years into senior positions in the financial areas of government departments, agencies and Crown corporations, or elsewhere as their career preferences indicate.

Our internal training program, coupled with external continuing education opportunities, provides a comprehensive developmental program which spans the entire careers of our professional staff. On-the-job training plays an important part in the education of our auditors and the Office's assignment performance review program is a significant element of a management information system which monitors the progress of our staff and helps identify professional development requirements.

**19.4** University recruits are required to enroll in professional training programs leading to qualification as a Chartered Accountant, Certified General Accountant, or Registered Industrial Accountant. As a result of interviews conducted in the autumn of 1976 with students from campuses across Canada, 23 university graduates joined the Office. Representatives of the Office are interviewing students at university campuses again this year.

At August 1, 1977, 179 of our full-time professional staff were qualified for membership in professional accounting associations. In addition 100 students-in-accounts were enrolled in programs leading to such qualifications.

## *Organization and Activities of the Audit Office*

In September 1977, the Institute of Chartered Accountants of Ontario granted an increase in the number of students who may be registered for employment by the Audit Office in Ottawa from 25 to a number equal to three students for each professional staff member who is at the AU-3 level or above and is also a member of the Institute. Also during the last year the Ontario Society of Management Accountants and the Ontario Association of Certified General Accountants formally recognized the Audit Office's career development program as acceptable training for staff seeking the RIA or CGA designations. This recognition and expression of confidence in the Office's student development program by the three major professional accounting bodies in Ontario will be of great assistance in recruitment efforts and in furthering the professional objectives of the Office.

**19.5** The Audit Office has continued the development of its activities in compliance with the Official Languages Resolution. During the year, 48 employees attended language training. One hundred and eighty-six employees are now bilingual, and one group in Ottawa is designated a Unit-Working-in-French.

**19.6** The following table presents a profile of full-time staff at August 1, 1977, March 31, 1977, and March 31, 1976, excluding those recruited under the Executive Interchange Program:

	August 1 <u>1977</u>	March 31 <u>1977</u>	March 31 <u>1976</u>
Senior management .....	19	17	15
Directors and managers .....	60	54	42
Supervisors and auditors .....	130	139	127
Other audit staff .....	98	91	95
Professional staff .....	<u>307</u>	<u>301</u>	<u>279</u>
Support and administrative staff ..	<u>122</u>	<u>110</u>	<u>74</u>
	<u>429</u>	<u>411</u>	<u>353</u>
In the National Capital Region .....	338	316	266
In other parts of Canada .....	91	95	87
	<u>429</u>	<u>411</u>	<u>353</u>

**19.7** The Office continues to make extensive use of professional resources available from the private sector, not only to supplement the work of the permanent staff but also to provide a variety of specialized knowledge and experience not required on a full-time basis. Thus we are able to enrich the experience of the permanent staff and also achieve increasingly higher auditing standards.

The use of teams composed of both public servants and professionals working under the Executive Interchange Program of the Public Service Commission or professional service contracts has proven effective in recent years in the



## *Organization and Activities of the Audit Office*

Financial Management and Control Study (FMCS), the Computer and Information Systems Evaluation (CAISE) Study, the Study of Procedures in Cost Effectiveness (S.P.I.C.E.) and the Audit Program Enrichment Exercise (A.P.E.X.). In keeping with the Government's intention, announced in the Throne Speech of 1976, to encourage the use of resources from the private sector, this activity has been increased, consistent with the full employment of our permanent staff.

Although the full-time professional staff is being increased by employing suitably qualified high-potential candidates who present themselves and by encouraging our present staff to obtain recognized professional accounting degrees, this process is necessarily slow and subject to attrition, primarily due to transfers and promotions to other parts of the Public Service. Therefore, by necessity and in accordance with Government policy, and because it has proven effective during recent years, the practice of using extensive assistance from the private sector primarily for the Government-wide special programs referred to above, and for special non-recurring studies and examinations is likely to continue during the period our staff is being brought up to strength in both numbers and professional qualifications.

Staff recruited under the Public Service Commission Executive Interchange Program has included partners, principals and managers of professional accounting and management consulting firms as well as specialists from industry and universities. These professionals normally serve in the Office for a period of between one and two years.

**19.8** One of our recently qualified chartered accountants is completing a term of service with a public accounting firm under the Interchange Canada Program and an audit director is representing Canada on the Board of Auditors of the North Atlantic Treaty Organization.

**19.9** Under the international exchange agreements of the Public Service Commission's Interchange Canada Program, a Director of Audit from the Australian Auditor General's Office is completing an 18-month term which began on November 1, 1976. Objectives of the exchange include the development of a better understanding of the objectives, management practices, problems, work methods and areas of interest of our respective Offices and the development of a spirit of co-operation and mutual confidence at the international level.

**19.10** Members of the Audit Office who retired during the year include: Leonard G. Sayers, C.A., Director, with over 28 years service; Lawrence W. Ewers, Auditor, and Stanley R. McPhail, Supervisor, each with over 36 years service; Ronald C. Edney, Manager, Toronto Office, with over 35 years service; Joseph Dibartolo and Charles E. Gauthier, Supervisors, each with over 34 years service; and Florian J. Gravelle, Storesman, with over 32 years service. Each has made a contribution to the effectiveness and spirit of the Office which is deeply appreciated. On behalf of their colleagues in the Audit Office, I wish them health and happiness in their retirement.

## **Assistance to the Standing Committee on Public Accounts**

**19.11** During the last year, the Audit Office continued to give high priority to providing assistance as and when desired by the Standing Committee on Public Accounts in its review of the Annual Report of the Auditor General to the House of Commons. The Office was represented at all meetings of the Committee by either the Auditor General or the Deputy Auditor General and by other senior officers as appropriate to the matter under review. We assisted the Subcommittee on Agenda and Procedures in planning the Committee's review of my 1976 Report. Responding to a special request from the Committee late in 1976, we prepared a summary of various Atomic Energy of Canada Limited export contracts for use by members during their consideration of that Company's international sales activities.

The principal subjects considered by the Public Accounts Committee during the last year concerned Atomic Energy of Canada Limited, our 1976 recommendations on the financial management and control practices of Crown corporations, Polysar Limited, and Bill C-20, the Auditor General Act. Recommendations of the Committee regarding questionable trade practices of Polysar Limited, were included in its Second Report to the House of Commons which is reproduced in Appendix E to this Report. The Auditor General Act is included in Appendix B.

## **Computer and Information Systems Evaluation (CAISE) Study**

**19.12** The findings of the Computer and Information Systems Evaluation (CAISE) Study for 1976-77 are included in Parts 3 to 6 of this Report. The 1976-77 program included:

- the establishment of an inventory of computer applications in the Federal Government;
- a review of management controls over electronic data processing (EDP) resources in the specific areas of systems development, the procurement of equipment and services, and security with respect to computer systems, data and services; and
- an in-depth review of controls over financial information processed by nine computer-based systems located in seven different departments.

At this time, with the review of most major computer-based systems completed, it is appropriate to acknowledge with appreciation the important contribution of the 12 outside organizations, mainly firms of chartered accountants and management consultants, who made 40 senior members of their staffs available to participate in the Study. Without this support, the Study would not have been possible. The Audit Office is most grateful to each firm and its representatives for their contribution to the Study's success.

The Audit Office is developing a permanent EDP audit capability integrated to the extent possible with normal audit operations. EDP specialists will continue

to review the Government's computer-based financial systems and will develop EDP audit manuals, implement computer-assisted audit techniques, train audit staff and ensure that our audit programs are commensurate with identified control weaknesses. Participants in the CAISE Program will continue on a reduced scale to give needed support to this new development of an in-house computer audit capability.

### **Financial Management and Control Study**

**19.13** The findings of the Financial Management and Control Study (FMCS) for 1976-77 are included in Part 7 and Appendix D of this Report. Parts 8 and 9 describe the actions taken to date by the Public Accounts Committee, the Treasury Board Secretariat, departments, agencies and Crown corporations on the FMCS observations and recommendations included in my 1975 and 1976 Reports.

The 1976-77 program concludes the initial round of studies identified in the original terms of reference and which commenced in May 1974. In this final year we reviewed seven departments and agencies, two Crown corporations, one corporation not scheduled in the Financial Administration Act and the Governments of the Yukon and Northwest Territories, including their agencies and Crown corporations. In addition, we reviewed and reported, as part of our regular audit work, on the financial management and control practices in a further eight departments and agencies.

### **Study of Procedures in Cost Effectiveness (S.P.I.C.E.)**

**19.14** The Office is undertaking a government-wide Study of Procedures in Cost Effectiveness (S.P.I.C.E.), a major project to assess the adequacy of management controls in the Government in terms of "value for money."

For a number of years the Audit Office has identified and on occasion included in annual Reports instances where full value was not received from payments made by departments, agencies or Crown corporations. The Report of the Independent Review Committee on the Office of the Auditor General of Canada, recommended that the Auditor General be required to call attention to any cases where he observes that value has not been obtained for public expenditure. This recommendation is reflected in the new Auditor General Act in Section 7(2) which provides in part that each annual report of the Auditor General to the House of Commons

...shall call attention to ... any cases in which he has observed that...

- (d) money has been expended without due regard to economy or efficiency; or
- (e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.



## *Organization and Activities of the Audit Office*

Recognizing the imminence of the introduction of the Auditor General Act and, consequently, the pressing need to prepare my Office for its new responsibility, in September 1976 I initiated the Study of Procedures in Cost Effectiveness with the following objectives:

- to compile information on the "state of the art" of management control systems in the public sector, in terms of economy, efficiency and effectiveness;
- to assess and report on existing procedures for planning, measuring and controlling activities in Canada's public service (in the interests of economy, efficiency and effectiveness); and
- to recommend to the Office of the Auditor General how this new mandate should be exercised in the future.

The Study is directed by Kenneth G. Belbeck, President of the management consulting firm of Stevenson & Kellogg, Ltd., who has been associated with the Office since September 1, 1976, as Director General - S.P.I.C.E. under the Executive Interchange Program of the Public Service Commission. Working with him are approximately 60 senior professionals assigned to the Study from my Office and recruited from leading management consulting and public accounting firms across Canada. The Deputy Director General of the S.P.I.C.E. Program is Ronald B. Robinson, also an executive of Stevenson & Kellogg, Ltd. on loan to the Office for two years under the Executive Interchange Program.

As the above objectives indicate, the initial approach of S.P.I.C.E. was basically research oriented. Until recently, the Study has been examining selected programs within certain departments and agencies of the Government, gathering information and knowledge, developing expertise and identifying the talents and resources required by the Audit Office for the fulfilment of its new mandate.

As provided for in the new Auditor General Act which came into effect on August 1, 1977, the first results of our studies based on the value for money concept will be communicated to the House of Commons in my 1978 Report. To attain this objective, we have recently modified the initial research orientation of the Study and transformed it into an expanded operational program. We are continuing the program of individual examinations in specific areas of Government operations to obtain audit evidence on the quality of management controls. Concurrently, in-depth studies crossing the boundaries of departments and agencies are being initiated to explore issues of a government-wide nature that have emerged from our examinations to date.

### **Special Audits and Inquiries**

**19.15** During the last year, the Special Audits and Inquiries Branch of the Audit Office continued with its objective of conducting studies of a government-wide or subject nature broader in scope than the normal day-to-day audit activities. Operating on a project basis, the Branch uses internal staff



supplemented as necessary by industry or government specialists or by professionals of other disciplines. Separate terms of reference are developed for each project and emphasis is given to evaluating the adequacy of control systems.

My 1976 Report included observations arising from the following special studies made by the Special Audits and Inquiries Branch:

- Travel and Relocation Expenses
- Grants and Contributions
- Oil Import Compensation Program
- Receipt and Deposit of Public Money
- Office Accommodation
- Internal Controls in Payroll Systems
- Manufacturers' Sales Tax

The study of Travel and Relocation Expenses was continued into 1976-77. The study of Grants and Contributions is a multi-year project. Observations arising from the continuation of these studies are contained in Parts 11 and 12 of this Report. Observations on the other five studies mentioned above are contained in Part 10. We also refer in Part 10 to a study initiated in 1976 relating to the use of statistical data in determining certain government expenditures.

A study of financial management and controls over contracts in the Federal Government was initiated during the last year. This project will be completed during the current year and matters which should be drawn to the attention of the House of Commons will be included in my 1978 Report.

### **Departmental and Corporate Audits**

**19.16** Parts 15 to 18 of this Report include observations arising from regular audits of departments and Crown corporations.

Parts 13 and 14 contain, respectively, the Auditor General's certificates on the main financial statements of Canada and our observations on these statements. The observations included in Part 14 have been reproduced in Volume I of the Public Accounts for the convenience of the readers of the financial statements.

Part 15 of the Report includes comments on the financial statements and operations of the Crown corporations and other entities for which the Auditor General is required to provide separate professional opinions. All such corporations and entities are listed in that Part.

Parts 16 and 17 contain the observations required by Section 61(1) of the Financial Administration Act on irregularities disclosed during Audit Office examinations and on other matters the Auditor General considers should be brought to the notice of the House of Commons.

Finally, Part 18 comments on matters dealt with in previous Reports of sufficient significance to be reported to the House of Commons again. These comments arise from the Office's continuous follow-up and monitoring of actions taken to correct deficiencies previously reported.

## **International Audits**

**19.17** The Auditor General of Canada is one of the three members of the Board of Auditors of the United Nations, having been re-appointed for a term expiring June 30, 1980. The other members of the Board are the Controller General of Colombia and the Auditor General of Ghana. In addition, the Auditor General is the auditor of the International Civil Aviation Organization, a specialized agency of the United Nations with headquarters in Montreal, and is a member of the Panel of External Auditors of the United Nations and Specialized Agencies. The Auditor General of Canada completed in October 1977, two-year terms as Chairman of both the Board of Auditors and the Panel of External Auditors.

In my 1976 Report, I stated that the Board of Auditors had approved significant organizational and procedural changes that would enable the members to discharge their joint and several responsibilities more effectively by unified and better integrated audit plans and programs. Significant progress has been made in these reforms.

An Audit Operations Committee has been established comprising the three full-time Directors of External Audit from Canada, Colombia and Ghana. Canada is represented in this capacity by Michael R. Harle, a Director General in our Office, and the Committee is under the chairmanship of Edward R. Rowe, Executive Director - International Audits in our Office, whose services have been provided by Canada for a two-year period ending June 1978.

This Committee meets on a regular basis and to date has:

- developed various questionnaires and audit techniques to be used for all assignments of the Board;
- established audit standards to govern the performance of each assignment;
- initiated both seminar and on-the-job training for the audit staffs of the three members in systems-based auditing;
- developed co-ordinated audit plans and programs for each assignment;

## *Organization and Activities of the Audit Office*

- achieved some integration of the staffs of the three members on major assignments;
- revised the methods of reporting to management on the results of audits;
- improved liaison with the various internal inspection units and senior financial officers; and
- improved communications with other members of the Panel of External Auditors to assist in making the audits more effective.

Significant progress has been made in shifting the emphasis in audit efforts from the review of specific transactions to the review of systems of financial management and control. An in-depth evaluation of the systems of financial management and control in the United Nations Headquarters and Office at Geneva, including the response of the administration, was received with considerable interest in October 1977 by the appropriate United Nations Committee

The Audit Operations Committee intends to produce a manual of systems-based audit procedures for the Board of Auditors once the procedures have been fully tested. It is anticipated that this manual will play an important part in the development and implementation of generally accepted and consistently applied auditing standards to the United Nations and may be useful to the legislative audit authorities in developing nations.

### **Professional Practices**

**19.18** The Professional Practices Branch is responsible for developing and maintaining modern auditing standards and procedures for use in the Audit Office. The Branch also conducts on-going research in accounting and auditing and provides a consultative, advisory service to staff.

During the year all professional staff received a draft of the comprehensive audit manual, referred to in last year's Report, which sets out the objectives and standards of the Office and a uniform audit approach. Formal training courses were developed and held to introduce the audit manual to the members of our professional staff. The final version of the manual is nearing completion.

The research facilities of the Office were expanded during the year by the establishment of a central library service under the direction of a full-time librarian. Reading and reference material includes government publications, major accounting and auditing texts and periodicals.

All members of the Office are encouraged to seek the assistance of the Professional Practices Branch for consultation and research on accounting and auditing problems and a significant part of the Branch's time this year was spent in providing such assistance. Complex technical matters and questions that pertained to broad policy were also referred to the Auditor General's Independent Advisory Committee on Government Accounting and Auditing Standards for its consideration and advice.

### Legislative Auditors' Meeting

**19.19** The Canadian Legislative Auditors held their fifth annual meeting in Halifax on September 13 and 14, 1977. Some 40 senior members of the federal and the provincial audit offices met on this occasion to exchange views on technical matters and other items of common interest. The agenda included such topics as: financial reporting practices by governments; the education, training and accreditation of government accountants; the role of Public Accounts Committees; and the evaluation of economy, efficiency and effectiveness. Guest speakers included the Honourable G.A. Regan, Premier of Nova Scotia; Dr. Harold Nason, Special Adviser to the Minister of Finance, Province of Nova Scotia; N. Glenn Ross, partner of Coopers & Lybrand and Chairman of the Canadian Institute of Chartered Accountants Study Group on Financial Reporting Practices by Governments; Simon McInnes, Assistant Professor of Political Science, McMaster University; and K.G. Belbeck, President of Stevenson & Kellogg, Ltd.

### Audit Office Expenditures

**19.20** The operating expenses of the Audit Office for the fiscal year 1976-77 amounted to \$14 million, of which \$9.7 million or 69% was for salaries and other personnel costs. A comparative statement of expenditures follows:

	1976-77	1975-76
	(in thousands of dollars)	
Salaries	\$ 8,787	\$7,056
Contribution to employee benefit plans	901	803
Travelling, staff transfer and communication expense	773	611
Professional and special services	2,897	578
Materials and supplies	192	125
Office furniture and equipment	251	87
Annual Report, advertising, etc.	73	62
Rentals	82	47
Repairs and maintenance	41	19
Other	10	24
	<hr/> 14,007	<hr/> 9,412
Less: Cost recoveries from international audits	142	134
	<hr/> \$ 13,865	<hr/> \$ 9,278
	<hr/> <hr/>	<hr/> <hr/>

### Recommendations of the Independent Review Committee

**19.21** In previous Reports I have reported on the progress toward implementation of the recommendations contained in the Report of the Independent Review Committee which was tabled in the House of Commons in April 1975. In



the past these recommendations have been classified as: those requiring legislative action; those that can be implemented by either the Auditor General or the Government; and those that can be implemented by the joint action of the Auditor General and the Government. In addition, one recommendation appeared to require specific action by the House of Commons (Recommendation 24) and one by the Standing Committee on Public Accounts (Recommendation 26).

It is a pleasure to report that, with the proclamation of the Auditor General Act on August 1, 1977, substantially all the recommendations of the Committee requiring legislative action have been incorporated in the laws of Canada. This legislation is, in itself, a fitting tribute to the work of the Committee and a worthy memorial to its Chairman, the late John R.M. Wilson, F.C.A. It is the culmination of a period of intensive study by the Committee members and by many others, including Members of Parliament, government officials and Audit Office employees, which began shortly after I assumed Office in 1973.

The current status of action on each of the Committee's 47 recommendations is shown in Appendix C to this Report.

## APPENDICES



## APPENDICES

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**APPENDIX A**  
**FINANCIAL ADMINISTRATION ACT - PART VII**  
**AND EXTRACTS FROM PART VIII**



## FINANCIAL ADMINISTRATION ACT

R.S., c. F-10

## Part VII

## THE AUDITOR GENERAL OF CANADA

Auditor General	<p><b>56.</b> (1) The Governor in Council shall by commission under the Great Seal appoint an officer called the Auditor General of Canada to hold office during good behaviour until he attains the age of sixty-five years, but he is removable by the Governor General on address of the Senate and House of Commons.</p>	<p>(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by persons employed in that department.</p>	Oath of secrecy
Salary	<p>(2) The Auditor General shall be paid a salary equal to the salary of the Chief Justice of the Federal Court of Canada, including any additional salary authorized by section 20 of the <i>Judges Act</i>.</p>	<p>(4) The Auditor General may suspend from the performance of his duty any person employed in his office. R.S., c. 116, s. 66.</p>	Suspension
Public Service Superannuation Act	<p>(3) The provisions of the <i>Public Service Superannuation Act</i>, except those relating to tenure of office, apply to the Auditor General.</p>	<p><b>58.</b> The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion</p>	Accounts relating to C.R.F.
Officers, etc.	<p>(4) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the <i>Public Service Employment Act</i>.</p>	<p>(a) the accounts have been faithfully and properly kept;  (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;  (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized; and  (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property. R.S., c. 116, s. 67.</p>	
Acting Auditor General	<p>(5) The Governor in Council may appoint a person temporarily to perform the duties of the Auditor General during a vacancy in the office of Auditor General. R. S., c. 116, s. 65; 1955, c. 3, s. 1; 1963, c. 41, s. 2; 1966-67, c. 84, s. 3.</p>		
Access to books, files, etc.	<p><b>57.</b> (1) Notwithstanding any Act, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he may deem necessary for the proper performance of his duties.</p>		
Stationing of officers in other departments	<p>(2) The Auditor General may station in any department any person employed in his office to enable him more effectively to carry out his duties, and the department shall provide the necessary office accommodation for any officer so stationed.</p>	<p><b>59.</b> The Auditor General shall</p> <p>(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister may require; and</p> <p>(b) when and to the extent required by the Minister, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities, authorized to be destroyed under this Act;</p>	Other duties



and he may, by arrangement with the registrar, maintain custody and control, jointly with the registrar, of cancelled and unissued securities. R.S., c. 116, s. 68.

Certificates

**60.** The Auditor General shall examine and certify in accordance with the outcome of his examinations the several statements required by section 55 to be included in the Public Accounts, and any other statement that the Minister may present for audit certificate. R.S., c. 116, s. 69.

Report to House of Commons

**61. (1)** The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,

(b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,

(d) an expenditure was not authorized or was not properly vouched or certified,

(e) there has been a deficiency or loss through the fraud, default or mistake of any person, or

(f) a special warrant authorized the payment of any money,

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

When report to be tabled

**(2)** The report of the Auditor General shall be laid before the House of Commons by the

Minister on or before the 31st day of December, or, if Parliament is then not in session, within fifteen days after the commencement of the next ensuing session and if the Minister does not, within the time prescribed by this section, present the report to the House of Commons, the Auditor General shall transmit the report to the Speaker for tabling in the House of Commons.

Inquiry and report

**62.** The Auditor General shall, whenever the Governor in Council or the Treasury Board directs, inquire into and report on any matter relating to the financial affairs of Canada or to public property and on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought. 1966-67, c. 74, s. 11.

Improper retention of public money

**63.** Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of such cases to the President of the Treasury Board. 1966-67, c. 74, s. 13.

Inquiries

**64.** The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*. R.S., c. 116, s. 74.

Audit of office of Auditor General

**65.** An officer of the public service of Canada nominated by the Treasury Board shall examine and certify to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the office of the Auditor General. R.S., c. 116, s. 75.

Extracts from Part VIII

CROWN CORPORATIONS

Access to books,  
etc.

**76.** The auditor is entitled to have access at all convenient times to all records, documents, books, accounts and vouchers of a corporation, and is entitled to require from the directors and officers of the corporation such information and explanations as he deems necessary. R.S., c. 116, s. 86.

Auditor's report

**77. (1)** The auditor shall report annually to the appropriate Minister the result of his examination of the accounts and financial statements of a corporation, and the report shall state whether in his opinion

(a) proper books of account have been kept by the corporation;

(b) the financial statements of the corporation

(i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

(ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and

(iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation;

and the auditor shall call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

(2) The auditor shall from time to time make to the corporation or to the appropriate Minister such other reports as he may deem necessary or as the appropriate Minister may require.

(3) The annual report of the auditor shall be included in the annual report of the corporation.

(4) Notwithstanding section 68, this section operates in lieu of section 132 of the *Canada Corporations Act*. R.S., c. 116, s. 87.

Other reports

Annual report

Audit

**78.** In any case where the auditor is of the opinion that any matter in respect of a corporation should be brought to the attention of the Governor in Council, the Treasury Board or the Minister of Finance, such report shall be made forthwith through the appropriate Minister. R.S., c. 116, s. 88.

Report through  
Minister



**APPENDIX B**  
**AUDITOR GENERAL ACT**





## 25-26 ELIZABETH II

## CHAPTER 34

An Act respecting the office of the Auditor  
General of Canada and matters related  
or incidental thereto

[Assented to 14th July, 1977]

Her Majesty, by and with the advice and  
consent of the Senate and House of Com-  
mons of Canada, enacts as follows:

## PART I

## SHORT TITLE

Short title	1. This Part may be cited as the <i>Auditor General Act</i> .	(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.	Re-appoint- ment
INTERPRETATION			
Definitions	2. In this Act,	(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General.	Vacancy
"Auditor General"	"Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);		
"Crown corporation"	"Crown corporation" has the meaning assigned to that expression by subsection 66(1) of the <i>Financial Administration Act</i> ;	4. (1) The Auditor General shall be paid a salary equal to the salary of the Chief Justice of the Federal Court of Canada, including any additional salary authorized by section 20 of the <i>Judges Act</i> .	Salary
"department"	"department" has the meaning assigned to that term by section 2 of the <i>Financial Administration Act</i> ;	(2) The provisions of the <i>Public Service Superannuation Act</i> , other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the <i>Diplomatic Service (Special) Superannuation Act</i> in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the <i>Public Service Superannuation Act</i> do not apply to him.	Pension benefits
"registrar"	"registrar" means the Bank of Canada and a registrar appointed under Part IV of the <i>Financial Administration Act</i> .		
AUDITOR GENERAL OF CANADA			
Appointment and tenure of office	3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.		
Idem	(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.	5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund	Examination

## DUTIES

and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

Idem

6. The Auditor General shall examine the several financial statements required by section 55 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

Report to House of Commons

7. (1) The Auditor General shall report annually to the House of Commons

- (a) on the work of his office; and
- (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

- (a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- (b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;
- (c) money has been expended other than for purposes for which it was appropriated by Parliament;
- (d) money has been expended without due regard to economy or efficiency; or
- (e) satisfactory procedures have not been established to measure and report the

effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Submission of report to Speaker and tabling in the House of Commons

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report.

Special report

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 20(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Submission of reports to Speaker and tabling in the House of Commons

9. The Auditor General shall

Idem

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require; and

(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*; and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.

Improper retention of public money

Inquiry and report	<p>11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.</p>	Reliance on audit reports of Crown corporations
Advisory powers	<p>12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.</p>	Auditor General may request information
Access to information	<p>13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.</p>	Direction of the Governor in Council
Stationing of officers in departments	<p>(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.</p>	
Oath of secrecy	<p>(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.</p>	
Inquiries	<p>(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the <i>Inquiries Act</i>.</p>	
	<p>14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.</p> <p>(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.</p> <p>(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.</p>	
	<p>STAFF OF THE AUDITOR GENERAL</p> <p>15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the <i>Public Service Employment Act</i>.</p> <p>(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in <i>Appropriation Acts</i>, contract for professional services.</p> <p>(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the <i>Public Service Employment Act</i>,</p>	Officers, etc.  Contract for professional services  Delegation to Auditor General



other than the powers, duties and functions of the Commission in relation to appeals under sections 21 and 31 of that Act and inquiries under section 32 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office.

Responsibility  
for personnel  
management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 5(1)(e) and section 7 of that Act.

Collective  
agreements

17. Any collective agreement affecting persons employed in the office of the Auditor General entered into before the coming into force of this Act remains in force and binds the Auditor General as employer of such persons until the expiry of that agreement.

Classification  
standards

18. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.

Delegation

19. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 55 of the *Financial Administration Act* and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.

## ESTIMATES

20. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Estimates

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.

Special report

21. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

Appropriation  
allotmentsAUDIT OF THE OFFICE OF THE AUDITOR  
GENERAL

22. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Audit of office  
of the Auditor  
General

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

Submission of  
reports and  
tabling

## PART II

### CONSEQUENTIAL AND RELATED AMENDMENTS

R.S., c. F-10      **23.** Part VII of the *Financial Administration Act* is repealed.

R.S., c. P-35      **24.** (1) Part I of Schedule I to the *Public Service Staff Relations Act* is amended by deleting therefrom the words "Office of the Auditor General of Canada".

(2) Part II of Schedule I to the *Public Service Staff Relations Act* is amended by adding thereto the words "Office of the Auditor General of Canada".

R.S., c. E-8      **25.** Section 16 of the *Established Programs (Interim Arrangements) Act* is repealed and the following substituted therefor:

Powers of Auditor General      "16. Nothing in this Act shall be construed to restrict the powers of the Auditor General of Canada under the *Auditor General Act*."

1970-71-72, c. 52      **26.** Section 27 of the French version of the *Pilotage Act* is repealed and the following substituted therefor:

Vérificateur général      "27. Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de chaque Administration et en fait rapport au Ministre."

R.S., c. N-22      **27.** Subsection 23(5) of the *Northwest*

*Territories Act* is repealed and the following substituted therefor:

"(5) The Auditor General has, in connection with his examination of the accounts of the Territories, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada." Powers of Auditor General

**28.** Subsection 26(5) of the *Yukon Act* is repealed and the following substituted therefor: R.S., c. Y-2

"(5) The Auditor General has, in connection with his examination of the accounts of the Territory, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada." Powers of Auditor General

**29.** Section 15 of the French version of the *Unemployment Insurance Act, 1971* is repealed and the following substituted therefor: 1970-71-72, c. 48

"15. Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de la Commission et en fait rapport au Ministre." Vérification

**30.** Whenever, in the French version, the expression "auditeur général" appears in any provision of an Act listed in the schedule to this Act, there shall in every case, unless the context otherwise requires, be substituted the expression "vérificateur général". Amendments to French version

## PART III

### COMMENCEMENT

Coming into force      **31.** This Act shall come into force on a day to be fixed by proclamation.

(The Act came into force August 1, 1977)



APPENDIX C  
ACTION TAKEN ON  
RECOMMENDATIONS OF THE INDEPENDENT REVIEW COMMITTEE  
ON THE OFFICE OF THE AUDITOR GENERAL





**ACTION TAKEN ON  
RECOMMENDATIONS OF THE INDEPENDENT REVIEW COMMITTEE  
ON THE OFFICE OF THE AUDITOR GENERAL**

**Recommendation****Incorporated in Auditor General  
Act or Other Action Taken****The Canadian Auditor General**

- |  |  |
|--|--|
| 1. Separate legislation should be enacted concerning the role, responsibilities and relationships of the Auditor General and the Audit Office. The present Financial Administration Act should be amended accordingly. | Auditor General Act, 1976-77, c.34, proclaimed August 1, 1977. |
|--|--|

**Reporting to the House of Commons**

- |   |   |
|---|---|
| 2. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments included in the Public Accounts should be expanded to include non-budgetary appropriations and expenditures. In reporting on this statement, the Auditor General should say whether or not any individual appropriation has been over-expended and, if any has, he should identify the appropriation and the amount of the overexpenditure. | Implementation is planned by the Financial Administration Branch of the Treasury Board Secretariat as part of the implementation of the recommendations of the Study of the Accounts of Canada. |
| 3. (1) The Auditor General should report annually to the House of Commons   | Auditor General Act   |
| (a) on the work of his Office and   | Section 7(1)  |
| (b) whether he has received all the information and explanations he required  | Section 7(1)(a)<br>Section 7(1)(b)  |

Recommendation	Incorporated in Auditor General Act or Other Action Taken
and he should call attention to anything resulting from his examination that he considers should be brought to the attention of the House of Commons, including any cases where he has observed that	Auditor General Act Section 7(2)
(i) accounts have not been faithfully and properly kept or public money has not been fully accounted for;	Section 7(2)(a)
(ii) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized; or	Section 7(2)(b)
(iii) money has been expended other than for purposes for which it was appropriated by Parliament or value for money has not been obtained for any expenditure or expenditures,	Section 7(2)(c), (d) and (e)
provided that he should not be required to report on matters that, in his opinion, are not significant in the circumstances.	Section 7(2)
(2) The Auditor General should examine, in such manner as he deems necessary, the accounts and records of the administration.	Section 5
4. The Auditor General should continue to use an annual report as his primary reporting vehicle. This report should be issued not later than the end of each calendar year.	Auditor General Act Section 7(1) and (3)

Recommendation	Incorporated in Auditor General Act or Other Action Taken
<p>5. The Auditor General should have the authority to issue a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the issue of his annual report.</p>	<p>Auditor General Act Section 8</p>
<p><b>Reporting on the Financial Statements of Canada</b></p>	
<p>6. The Public Accounts should include among the main financial statements of Canada a new statement showing changes in financial position during the fiscal year and the causes of such changes.</p>	<p>A new statement to show changes in the financial position of the Government of Canada is under development.</p>
<p>7. The three main financial statements of Canada should appear together in the Public Accounts along with such notes and explanations as may be necessary.</p>	<p>Implemented, with the exception noted above for Recommendation 6.</p>
<p>8. The Auditor General should set out concisely in his reports attached to financial statements appearing in the Public Accounts any reservations he may have and qualify his opinion accordingly.</p>	<p>Auditor General Act Section 6</p>
<p>9. The Auditor General should discuss with the appropriate deputy minister and minister any matters in the financial statements of Canada that he thinks should be changed before they are signed and advise them of the qualifications he proposes to make in his opinion on the statements if such changes are not made.</p>	<p>Implemented.</p>



Recommendation	Incorporated in Auditor General Act or Other Action Taken
10. The Auditor General should continue to comment in his annual report to the House of Commons on matters included in the financial statements of Canada and be free to expand on the reasons for any qualification to his opinion that he found necessary to make.	Implemented. See Part 14 of this Report.
11. When the financial statements are presented together in the Public Accounts, complete with such notes and explanations as may be necessary, the Auditor General should express his opinion on all such statements in one report.	Auditor General Act Section 6
12. The Auditor General should participate in studies of accounting principles for government, whether initiated by the accounting profession or by the Government itself.	Implemented.
13. In reporting on the financial statements of Canada, the Auditor General should express his opinion as to whether they present fairly information in accordance with the stated accounting policies and on a basis consistent with that of the preceding year.	Auditor General Act Section 6
14. The Government should consider the possibility of having one minister responsible for the preparation and the form and content of the Public Accounts.	We have been informed that the required amendments to the Financial Administration Act have been prepared.

<p><b>Recommendation</b></p> <p><b>The Audit of Crown Corporations and International Organizations</b></p>	<p><b>Incorporated in Auditor General Act or Other Action Taken</b></p>
<p>15. The Auditor General should audit the financial accounts of all Crown corporations whose expenditures directly affect the budgetary accounts of Canada.</p>	<p>More appropriately included in Crown corporation legislation not yet enacted.</p>
<p>16. The audit of commercially oriented and financially self-sufficient Crown corporations should be conducted either by the Auditor General or by accounting firms, as deemed appropriate in each case.</p>	<p>More appropriately included in Crown corporation legislation not yet enacted.</p>
<p>17. The Auditor General should have the right of access to the financial records and documents of all Crown corporations of which he is not the auditor, as he deems necessary to the fulfilment of his responsibilities as auditor of the accounts of Canada.</p>	<p>Auditor General Act</p> <p>Section 14(2) and (3)</p>
<p>18. The board of directors of every commercially oriented and financially self-sufficient Crown corporation should appoint an audit committee.</p>	<p>More appropriately included in Crown corporation legislation not yet enacted.</p>
<p>19. In appointing auditors to a commercially oriented and financially self-sufficient Crown corporation, account should be taken of the recommendation of its board of directors and audit committee.</p>	<p>More appropriately included in Crown corporation legislation not yet enacted.</p>
<p>20. The Auditor General should charge professional fees for audit services, as would be done by accounting firms, to the commercially oriented and financially self-sufficient Crown corporations of which he is the auditor.</p>	<p>By agreement between the Government and the Auditor General, not to be implemented.</p>

**Recommendation****Incorporated in Auditor General  
Act or Other Action Taken**

21. The Governor in Council should nominate or approve the appointment of the Auditor General to the Board of Auditors of the United Nations and to the audit of international organizations. Such an appointment should be made only after consulting with him as to whether it would be compatible with the performance of his national responsibilities.

Implemented. See paragraph 19.17 of this Report.

**Relationships**

22. The Auditor General should not be restrained in his authority to advise appropriate officials of the public service of matters discovered in his examinations; he should in particular have the right to draw problems to the attention of the Treasury Board Secretariat at his own discretion.

Auditor General Act

Section 12

23. The Secretary of the Treasury Board should continue to provide the Standing Committee on Public Accounts with a formal response to matters raised in the annual report of the Auditor General.

Implemented.

24. Consideration should be given to changing the Standing Orders of the House of Commons to provide that the annual report of the Auditor General tabled in the House shall be automatically referred to the Standing Committee on Public Accounts and that, if this Committee has not already been organized, it must be so within a reasonable period, say thirty days, after such referral.

The House of Commons has amended its Standing Orders to provide for automatic and permanent referral of Reports of the Auditor General to the Standing Committee on Public Accounts. No amendment concerning the organization of the Committee has been made.

Recommendation	Incorporated in Auditor General Act or Other Action Taken
25. The Government should give consideration to the appointment, for each appropriation, of an accounting officer who would be accountable for the proper accounting and administration of expenditures made thereunder.	Not implemented. Under consideration by the Royal Commission on Financial Management and Accountability.
26. The Auditor General should, if the Standing Committee on Public Accounts requests him to do so, lend staff to the Committee to assist it in reviewing his report and in dealing with such other matters as may be referred to it.	The Standing Committee on Public Accounts has not so far requested the Auditor General to lend it staff.
27. The Auditor General should continue to play an active role in the International Organization of Supreme Audit Institutions and other bodies of a similar nature.	Implemented.
28. The Auditor General should continue to participate in conferences of Canadian legislative auditors, and should take an active interest in the development of nationally accepted governmental auditing principles and standards.	Implemented.
29. The Auditor General should maintain close relationships with the principal accounting bodies in Canada.	Implemented.

### **Staffing the Audit Office**

30. Except for his reports to the House of Commons and his report on the financial statements of Canada, the Auditor General should be empowered to designate a senior member of his staff to sign on his behalf any report or opinion that he is required to give.	Auditor General Act Section 19
---	-----------------------------------

Recommendation	Incorporated in Auditor General Act or Other Action Taken
Such member should indicate beneath his signature his position in the Office and the fact that he is signing on behalf of the Auditor General.	
31. The Audit Office should develop and maintain a high quality professional development program for its personnel.	Implemented. See paragraphs 19.3 and 19.4 of this Report.
32. Separate classification and selection standards should be prepared for the professional and para-professional staff of the Audit Office to conform with the classifications that the Office recognizes for its own purposes, with broad and overlapping salary ranges.	Auditor General Act Section 18
33. The Auditor General should have the flexibility to retain, on the basis he considers appropriate, whatever types of competence he requires to discharge his responsibilities effectively.	Auditor General Act Section 15
<b>Independence</b>	
34. The appointment of the Auditor General and the appointment of a person temporarily to perform his duties during a vacancy in the office should continue to be made by the Governor in Council. Provision should also be made for the appointment by the Governor in Council of a person to perform the duties of the Auditor General in the event of his temporary incapacity.	Auditor General Act Section 3



Recommendation	Incorporated in Auditor General Act or Other Action Taken
35. The Auditor General should continue to be appointed to hold office during good behaviour until he attains the age of sixty-five years, and he should continue to be removable by the Governor General on address of the Senate and House of Commons.	*Auditor General Act  Section 3
36. The Auditor General's salary should be fixed by statute at a level equivalent to the mid-point of the highest range of salaries paid to persons in the deputy minister classification within the public service.	*Auditor General Act  Section 4(1)
37. An Auditor General appointed from outside the public service should be given the option of choosing to participate in the pension plan provided for in the Public Service Superannuation Act or in another plan designed for short-service appointees such as the Diplomatic Service (Special) Superannuation Act.	Auditor General Act  Section 4(2)
38. The Auditor General should have the right to make a special report to the House of Commons in the event that amounts provided for the Audit Office in the Estimates are, in his opinion, inadequate to enable him to fulfil his responsibilities.	Auditor General Act  Section 20(2)
39. The Auditor General should have the authority, within the total dollar limitations established for the Audit Office in appropriation acts, to contract for professional services without the prior approval of the Treasury Board.	Auditor General Act  Section 15(2)

\* *The provisions of the Auditor General Act do not conform precisely to the recommendations made by the Independent Review Committee.*

Recommendation	Incorporated in Auditor General Act or Other Action Taken
40. The Office of the Auditor General should be specifically exempted from the provisions of the Financial Administration Act with respect to the division of appropriations into allotments.	Auditor General Act Section 21
41. An officer of the public service, who is a professionally qualified auditor and who is not engaged in the financial administration of the Government, should be appointed by the Treasury Board as auditor of the Audit Office. In the event that such a person is not available, the services of an accounting firm should be sought.	*Auditor General Act Section 22(1)
42. Employees of the Audit Office should continue to be appointed and promoted under the Public Service Employment Act, provided that the Public Service Commission continues to delegate to the Auditor General its authority under the Act, subject to its right to monitor the use made of this delegated authority.	Auditor General Act Section 15(1) and (3)
43. The Auditor General should be a separate employer as defined in the Public Service Staff Relations Act.	Auditor General Act Section 16
44. Legislation establishing the Auditor General as a separate employer should contain transitional provisions for the continuation of existing collective agreements applicable to staff of the Audit Office until such time as the staff have taken the necessary votes and a bargaining agent can be certified under the Public Service Staff Relations Act.	Auditor General Act Section 17

\* The provisions of the Auditor General Act do not conform precisely to the recommendations made by the Independent Review Committee.

Recommendation	Incorporated in Auditor General Act or Other Action Taken
45. The Auditor General's right of access to information should be defined, not in relation to the Government's accounts, but in relation to the responsibilities assigned to him.	Auditor General Act Section 13(1)
46. The Auditor General should continue to be empowered to undertake special assignments at the request of the Governor in Council, but should be under no obligation to perform such assignments if they would interfere with his primary responsibilities.	Auditor General Act Section 11
47. The Auditor General should present his reports to the House of Commons through the Minister of Finance who should be required to lay each report before the House within fifteen days of its receipt or, if Parliament is not then in session, within fifteen days after the start of the next session. If the Minister fails to do so, the Auditor General should transmit the report to the Speaker for tabling in the House of Commons.	*Auditor General Act Sections 7(3) and 8(2)

\* *The provisions of the Auditor General Act do not conform precisely to the recommendations made by the Independent Review Committee.*



**APPENDIX D**  
**FINANCIAL MANAGEMENT AND CONTROL STUDY**  
**REPORTS TO DEPARTMENTS, AGENCIES AND CORPORATIONS**





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**AGRICULTURAL STABILIZATION BOARD  
AGRICULTURAL PRODUCTS BOARD**

Observations and Recommendations as at November 1976.

Boards' Comments as at June 1977.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**BOARDS' COMMENTS**

**DESIGNATION OF SENIOR FINANCIAL  
OFFICER**

The close association of the Boards with the Department of Agriculture and their reliance on direction and guidance from the Department's Senior Financial Officer indicate the existence of a functional relationship between the Boards and the Senior Financial Officer.

- The Boards should formalize their relationship with the Senior Financial Officer of the Department of Agriculture, with the aim of achieving greater participation and of establishing the framework necessary for providing the guidance and direction required in the financial function.
- The Senior Financial Officer's duties, responsibilities and functional relationships should be clearly defined and communicated throughout the Boards. They should be reinforced through his effective participation in the management decision-making process so he can recommend and introduce the financial guidance necessary in all financially-related areas.

Agreed. The Boards have accepted that the functional relationship of the Senior Financial Officer of the Department should be more formally determined.

The duties, responsibilities and functional relationships will be defined and communicated to all concerned.

## **OBSERVATIONS AND RECOMMENDATIONS**

## **BOARDS' COMMENTS**

### **ROLE OF FINANCIAL MANAGEMENT AND CONTROL**

- The Senior Financial Officer should establish the guidelines necessary for developing an adequate system of financial management and control, and should, through the Head, Administration and Financial Services, ensure that all personnel adhere to them.

Departmental guidelines have been prepared and will be expanded where necessary to meet the specific needs of the Boards.

### **COMMUNICATION OF FINANCIAL POLICIES AND PROCEDURES**

- The Boards should prepare a financial manual tailored specifically to their needs. This manual should document all their financial policies and procedures and should be kept up to date.

Steps have already been taken to prepare financial manuals specifically for the Boards.

### **RESPONSIBILITY FOR DAIRY SUBSIDY PAYMENTS**

The financial responsibilities between the Boards, the Department of Agriculture and the Canadian Dairy Commission for paying dairy subsidies have not been clearly defined resulting in inadequate controls over these payments.

The Commission has initiated a study by the Bureau of Management Consulting in an attempt to resolve this problem.

- On completion of the study, the Stabilization Board should clearly describe and formalize, with the appropriate officials of the Canadian Dairy Commission and the Department of Agriculture, the roles of those involved in the subsidy

Agreed. A consulting study has been completed and arrangements will be made to achieve this recommendation.



## **OBSERVATIONS AND RECOMMENDATIONS**

## **BOARDS' COMMENTS**

payment process to ensure a well-established basis for developing and maintaining effective financial controls over the payments.

### **INTERNAL CONTROL OVER DAIRY SUBSIDY PAYMENTS**

The lack of clear definition of the responsibility for maintaining comprehensive systems of internal control over the dairy subsidy program has resulted in internal control deficiencies for which remedial action is needed to ensure accurate processing.

- A detailed review of internal controls throughout the dairy subsidy payment system should be undertaken once the roles of the Stabilization Board and the Canadian Dairy Commission are decided. The payment system should be amended to remedy present deficiencies and institute any additional measures necessary to ensure effective financial control.

Arrangements will be made to achieve closer co-operation and at the same time strengthen internal controls as suggested.

### **PAYROLL**

- To improve internal control, salary information processing should be separated from salary cheque distribution.

This has been done.

### **BUDGETARY CONTROL**

Funds allocated to the Boards for administrative expenses have been substantially below anticipated expenditures, requiring transfer from other responsibility centres of the additional funds needed to cover over-expenditures.

## OBSERVATIONS AND RECOMMENDATIONS

The Boards have based their budgets on the funds allocated to them, rather than on anticipated expenditures.

- To establish a better framework for financial accountability, the Department of Agriculture should be requested to allocate funds on the basis of anticipated administrative expenditures and to establish guidelines within which the Boards are expected to work based on their projected activity levels. The Boards should prepare their annual administrative expense budgets on this basis.

## INTERNAL AUDIT

The internal audit group is involved in review of certain subsidy programs, but not of such other financial administration systems as safeguarding assets, budgetary policies and procedures, expenditure controls and internal reporting systems.

- The Boards' internal audit group should prepare and implement an audit plan ensuring compliance with Treasury Board internal audit directives.
- The Boards should establish an audit committee under the chairmanship of the Secretary-Manager to whom the Supervisor, Internal Audit, would report.
- The functional relationship between the internal audit group and the Director, Internal Audit of the Department of Agriculture, should be formalized, documented and communicated.

## BOARDS' COMMENTS

Agreed in principle. Some adjustments have been made through Program Forecasts, but it is anticipated that major new administrative requirements will continue to be presented to the Government for approval as part of new stabilization authorities.

The Boards have accepted the need to review the role of internal audit completely and to implement recommendations along the lines proposed by this study.

Agreed; will be implemented.

Agreed; this will be done.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**BOARDS' COMMENTS**

- Using a systems-based audit approach in accordance with Treasury Board guidelines, a comprehensive work schedule should be prepared to ensure that all systems of financial administration are covered.
- Audit activities carried out by the Audit Services Bureau on the dairy subsidy program should be followed up and co-ordinated with the activities of the internal audit group.

Agreed, as above.

Agreed, as above.

**ANNUAL REPORTS**

The annual reports of the Boards, for the year ended March 31, 1976, included financial statements but not the Auditor General's report thereon.

The Auditor General's report on the Agricultural Products Board's financial statements was qualified due to an overvaluation of inventory.

- The annual reports of the Boards should contain both the financial statements and the Auditor General's report on them.

Now being done.



## THE ANTI-INFLATION BOARD

Observations and Recommendations as at May 1977.

Board's Comments as at July 1977.

### OBSERVATIONS AND RECOMMENDATIONS

### BOARD'S COMMENTS

#### COMMUNICATION OF FINANCIAL RESPONSIBILITIES

The reporting relationships between financial managers outside the Finance and Administration Branch and the Senior Financial Officer are not clearly understood.

- |   |         |
|---|---------|
| ● Organization charts and position descriptions of staff with financial responsibilities should be amended to show the functional relationships of those positions to that of the Senior Financial Officer. | Agreed. |
| ● The Chairman should formally designate the Director General, Administration, Finance and Personnel as the Senior Financial Officer of the Anti-Inflation Board.   | Agreed. |
| ● The functions and responsibilities of the Senior Financial Officer should be documented and communicated to line staff with financial responsibilities.   | Agreed. |

#### FINANCIAL PROCEDURES MANUAL

- |  |   |
|--|---|
| ● The financial procedures manual and the manual of internal administration should be amended to document procedures currently in place. The manuals should also document the financial responsibilities of branch administrative staff and the relevant sections should be distributed to them. | Review will commence in September and manual will be updated as required. |
|--|---|



## OBSERVATIONS AND RECOMMENDATIONS

## BOARD'S COMMENTS

### INTERNAL CONTROLS

- Internal controls within the financial function should be strengthened by ensuring that:
  - receiving reports and packing slips are attached to other payment documents before spending and payment authority are given; Implemented.
  - all invoices for purchases of goods are routed to the Financial Services Division for registration before being matched to other purchase documents; Implemented.
  - a responsibility stamp is used to identify all pre-audit steps performed before certification for payment, and that each audit step is initialled by the employee who performs it; Agreed. Implementation planned for September.
  - payment documents are batched before they are processed for payment; Agreed. To be implemented, on a trial basis, in September.
  - access to the supply of unused cheque requisitions is restricted and that sequential control of cheque requisitions is established; and Implementation planned for September.
  - access to personnel files by the staff in the Pay and Benefits Division is restricted. Agreed. Implementation planned for September.

### INTERNAL AUDIT

Internal financial audit is carried out by the Audit Services Bureau with limited direction from the management of the Anti-Inflation Board.

## **OBSERVATIONS AND RECOMMENDATIONS**

## **BOARD'S COMMENTS**

- The Management Committee should assume the functions of an Audit Committee to ensure that internal financial audit scope and coverage are adequate, and that effective action continues to be taken on audit findings and recommendations.

Agreed.

## **BUDGETARY CONTROL**

Branch managers have not been appropriately involved in all phases of the financial planning process.

- The Senior Financial Officer should ensure that operating managers actively participate in the financial planning process, and in the preparation of the Main Estimates and detailed budgets.

Agreed.

## **FINANCIAL REPORTING**

- The financial reports prepared for branch managers should be supplemented on a regular basis with comparisons of actual and planned expenditures, and analyses of major variances from planned expenditures.

Agreed.



## CANADA COUNCIL

Observations and Recommendations as at December 1976.

Corporation's Comments as at June 1977.

### OBSERVATIONS AND RECOMMENDATIONS

### CORPORATION'S COMMENTS

#### ORGANIZATION OF THE FINANCIAL FUNCTION

Duties of the Assistant Director and Treasurer do not encompass all the responsibilities normally attributed to the position of Senior Financial Officer. Canada Council sees his role to be that of treasurer focusing on accounting, custodial and secretarial functions. Consequently, the Senior Financial Officer has not actively pursued functions relating to all the duties of a comptroller. Moreover, he has limited involvement in financial matters outside of administration. Responsibilities of key financial personnel have not been documented and formal lines of functional responsibility regarding the position of Senior Financial Officer have not been established or communicated to divisional managers and their financial staff.

- The financial role and the reporting relationships of the Assistant Director and Treasurer should be substantially expanded, properly documented and communicated to employees, so that he may effectively execute his responsibilities as Senior Financial Officer.
- The Senior Financial Officer should provide functional direction and guidance to all staff with financial duties to ensure that their financial responsibilities are conducted in a co-ordinated manner.

The role of the Treasurer of Canada Council is traditionally oriented towards administrative services where he has been directly responsible for finance, personnel management, office services and other support services. In the program areas his role is restricted to developing procedures and controlling their implementation and observance.

Prior to this study, Canada Council had commissioned a complete documentation of every position description. In the process, it has taken into account the recommendations of the Auditor General's study team.

The position of the Treasurer has been defined to include the responsibility for maintaining a secure financial management system throughout Canada Council.

The job descriptions of all employees with financial duties now express the functional relationships which exist with the Treasurer, as Senior Financial Officer.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

- Job descriptions should be prepared and issued for all employees with financial responsibilities, clearly defining their duties and their functional reporting relationships to the Senior Financial Officer.

Job descriptions, as stated above, are in the process of being approved by management and will be issued in July 1977.

## FINANCIAL MANUAL

Although preliminary plans have been made for a financial procedures manual, a completion date has not been set and qualified staff has not been assigned on a full-time basis.

- Priority should be given to completing and distributing the financial manual now being developed.

Canada Council has retained the services of a firm of management consultants whose terms of reference include assisting Canada Council in producing a financial procedures manual based on an electronic data processing system.

## STAFF TRAINING

- A training program in financial administration, approved by the Senior Financial Officer, should be developed to meet the needs of financial officers and program managers.

This firm will be associated with Canada Council in the final stages of developing and implementing a staff training program in the financial processes and procedures.

## ELECTRONIC DATA PROCESSING SYSTEM

The development of the EDP system is proceeding with little involvement by the Senior Financial Officer. Implementation timetables do not indicate a completion date, or provide that he review the system and its controls. Existing systems documentation is of a technical nature, not suitable as an aid in user orientation.



## OBSERVATIONS AND RECOMMENDATIONS

- An implementation plan should be established identifying specific time frames for completing tasks related to introducing automated systems, including user orientation, staff training and identification of system controls.
- The Senior Financial Officer should take active responsibility for the EDP system's financial reporting aspects and for ensuring the adequacy of its internal controls.
- Priority should be given to the early completion of management and user documentation clearly comprehensible to non-technical employees.

## INTERNAL CONTROLS

- The system of internal control should be strengthened in all aspects of Canada Council operations to ensure the reliability of its accounting records, the safeguarding of its assets, and the integrity of its financial information.

As a priority the following actions should be taken:

### **Expenditures and Accounts Payable**

- specimen signatures for employees with delegated signing authority should be obtained and distributed to the appropriate officers within Canada Council;
- original suppliers' invoices should not be forwarded to employees who receive goods, because of the risk that such invoices could be suppressed to conceal missing inventory;

## CORPORATION'S COMMENTS

Completion of the EDP system including the conversion of files and the production of the user-oriented financial procedures manual is scheduled for the end of October 1977. The firm of management consultants referred to earlier is to satisfy the Senior Financial Officer of the adequacy of internal controls and financial reporting in the automated system.

The recommendations of the study team have resulted in the following corrective measures.

Now being implemented.

Agreed.

OBSERVATIONS AND RECOMMENDATIONS	CORPORATION'S COMMENTS
● a responsibility stamp should be used to identify all pre-audit steps to be performed before certification for payment. Each audit check should be initialled by the employee who performs it;	This procedure now exists.
● invoices and other documents supporting payments should be cancelled when the cheques are signed;	A perforating machine will be used to void paid invoices and other documents after payment.
● invoices should be batched before being processed for payment;	This would slow down the processing of invoices in the present manual operations. When the system is automated batching will be used.
● control of the cheque-signing machine should be segregated between two people;	Done.
● the number of cheques issued should be reconciled monthly with disbursement records by a person independent of the cheque issue and posting functions;	A system is being developed which will permit a reconciliation of the number of cheques issued with disbursement records in the normal month-end closing procedures.
● the responsibility for the payroll input and cheque distribution functions should be segregated;	Done.
● the Chief Accountant should approve and sign the payroll register before distribution of cheques;	The pay list will be certified by the head or assistant head of the Administration Division.
<b>Revenue and Accounts Receivable</b>	
● procedures should be established to ensure that:	
- all Art Bank rentals are billed;	The billing system is under review.
- all accounts receivable are recorded in the subsidiary records; and	All accounts receivable will in future be recorded in subsidiary records and an aged trial balance will be prepared periodically so that reminders may be sent on a scheduled basis to clients.
- an aged trial balance of the account is prepared monthly for review by management;	

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

- all cheques should be restrictively endorsed when received;
- the responsibilities for posting cash receipts and making bank deposits should be divided between two people;
- entries in the cash blotter should be agreed to the books of account by a person independent of the cash receipt and posting functions;

Done.

Corrective measures were taken in May 1977.

Reconciling the cash blotter with the books of account on a monthly basis will become a routine responsibility of the Internal Auditor.

### Fixed Assets

- the functions of storing and shipping art works should be segregated or each shipment should be authorized immediately before delivery by an individual independent of the storing and shipping functions; and
- the annual physical verification of art work and furniture and equipment should be assigned to people independent of the purchasing, storing and recording functions.

The control list will be compared to the shipment and signed either by an Art Bank liaison officer, registrar or administrator, before delivery.

For practical reasons, persons qualified to recognize a painting or a print by title and name of artist take the annual inventory of art work. However, Canada Council will associate a person independent of the Art Bank staff, preferably a person selected outside the staff of Canada Council, starting with the next inventory. The annual verification of furniture and equipment is assigned to at least three employees and security is thus achieved through numbers.

## INTERNAL AUDIT

The effectiveness of the internal audit is limited by scope, auditing approach and direction.

- The duties of the Internal Auditor should be revised to reflect more precisely the audit responsibilities identified in the Treasury Board Guide on Financial Administration.

Canada Council's Internal Auditor resigned as of June 1, 1977 and we are in the process of recruiting his replacement. Canada Council accepts the recommendations of the report.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

In particular, the Internal Audit section should:

- adopt an auditing approach that allows it to cover all of Canada Council's major financial operations within a three-year cycle;
  - direct its efforts increasingly toward analytical auditing and systems evaluation;
  - audit all aspects of electronic data processing;
  - assess the financial systems and controls used throughout Canada Council;
  - indicate, as quickly as possible, weaknesses noted in the systems audited by submitting highlight reports or *précis* followed by more detailed reports as necessary; and
  - conduct follow-up audits to evaluate the action taken on the reports.
- An Audit Committee consisting of members of Council, supported by senior executives, should be established to ensure that adequate scope and coverage are considered for internal financial audit and that effective action is taken on audit findings and recommendations.

The Executive Committee of Canada Council will constitute itself periodically as an audit committee as recommended.

## BUDGETARY CONTROLS

Formal written procedures do not exist for preparing plans and budgets.

## OBSERVATIONS AND RECOMMENDATIONS

- The Senior Financial Officer should ensure that procedures for preparing and reviewing Program Forecasts, Main Estimates and Budgets are documented and that details of the responsibilities involved in each process are clearly set out.
- Procedures should be designed, documented and circulated for control and approval of budget transfers to eliminate the possibility of internal budgets being altered without appropriate authority.

## FINANCIAL REPORTING

Financial management reports could be made more effective.

- To make variance analysis relative to actual expenditures meaningful budgeted expenditures in financial reports should reflect historical or anticipated spending patterns.
- Financial reports should be prepared on a timely basis, and should be produced monthly rather than quarterly.

## CORPORATION'S COMMENTS

Canada Council in reviewing its financial procedures is including the preparation of documented procedures for the preparation and review of Program Forecasts.

The financial procedures manual under development will deal with controls over budget transfers.

The Council anticipates from the EDP system under implementation more timely and more detailed reports.

Agreed.

Financial reports are prepared quarterly in conjunction with meetings of Council. However, in the last quarter, they are produced monthly.





## CANADIAN GRAIN COMMISSION

Observations and Recommendations as at November 1976.

Commission's Comments as at April 1977.

### OBSERVATIONS AND RECOMMENDATIONS

### COMMISSION'S COMMENTS

#### COMMUNICATION OF FINANCIAL RESPONSIBILITIES

The Financial Officer's role, responsibilities and reporting relationships have not been clearly documented and communicated.

- The Financial Officer's role should be documented and communicated throughout the organization.
- He should report directly to the Chief Commissioner and his principal responsibilities should encompass all aspects of financial management and control in the Commission.
- Functional reporting relationships between the Financial Officer, divisional directors, and administrative officers with financial responsibilities should be clarified, documented and communicated.

Agreed. This will be done in keeping with departmental policies and guidelines.

Agreed. The Commission's organization chart is being clarified to show the Financial Officer's direct reporting relationship to the Commissioner. The Commission recognizes this role for the Financial Officer.

Agreed. This will be communicated to staff to emphasize what was previously taken for granted.

#### FINANCIAL MANUAL

Although the general accounting system has been partially documented, the Commission has no financial manual.

- The Commission should develop and issue supplements to the Department of Agriculture's manual to document and communicate the Commission's special financial policies and procedures.

Agreed. Steps are being taken to fill the gaps where specifics are not covered by the Department's procedures.

## OBSERVATIONS AND RECOMMENDATIONS

## COMMISSION'S COMMENTS

### STAFF TRAINING

Many of the deficiencies in financial management and control within the Commission can be attributed to a lack of training in financial management and the concepts of budgetary and internal control.

- A formal plan should be implemented to meet the training requirements of all financial staff and program managers with financial responsibilities.

Agreed. Steps are being taken to fill the financial training gap within the Commission.

### ORGANIZATION AND STAFFING

- The Financial Officer should provide guidance on financial organization and participate in staffing and career development of staff performing financial functions.

Agreed. Recognized as part of functional duties of Financial Officer in accordance with departmental policies.

### DELEGATION OF AUTHORITIES

Although a new Delegation of Authorities has been proposed the Commission still operates with a document that gives a number of operating and administrative staff both spending and payment authority.

- The proposed Delegation of Authorities should be adopted as soon as possible to vest payment authority in appropriate financial officers only.

New departmental Delegation of Authorities, which include the Commission, have now been adopted.

### REVENUES

The systems of internal control over revenues are deficient in a number of respects:

## OBSERVATIONS AND RECOMMENDATIONS

## COMMISSION'S COMMENTS

- Systems used to capture revenue data are not documented;
- There are no controls to ensure that revenue source data initiated at field and divisional offices is received by the billing office in Winnipeg; and
- Revenue collected directly by the divisions is not subject to adequate controls.
- The Financial Officer should strengthen the systems of internal control over revenue, and develop effective procedures to ensure that all revenue is recorded, collected and accounted for.

Agreed.

## PAYMENTS

- Pre-audit procedures should be documented and communicated so responsibilities for this function are clearly identified.
- Source documents should bear evidence of the performance of account verification and pre-audit to preclude the duplication of this process by divisional or head office staff.
- Batch controls on invoices processed for payment should be established and the supporting documentation "cancelled" by affixing batch number and date before cheque requisitions are submitted for payment approval. This would minimize the possibility of invoices being submitted for payment a second time or of fictitious documents being entered into the payment system.

Agreed. Done.

Agreed. Those signing under Sections 26 and 27 will be certifying that audit steps have been performed.

Agreed. Now in effect.

## OBSERVATIONS AND RECOMMENDATIONS

## COMMISSION'S COMMENTS

### COMMITMENT CONTROLS

The Commission lacks adequate commitment controls over operating expenses. Managers and financial officers exercising financial authority have no adequate means of determining free balances for each allotment.

- Commitment control policies and procedures should be established and documented, and controls over expenditures improved so responsibility centre managers and financial officers can discharge financial responsibilities properly.

Agreed. Where deficiencies were identified, commitment control procedures have been improved to comply with recently revised departmental procedures.

### PAYROLL

Internal control procedures are not adequate for ensuring the accuracy of the Commission's payroll costs which are generated on a DSS payroll system from documents processed by the Personnel Branch of the Department of Agriculture.

- A system of internal control over payroll should be developed, documented and implemented to ensure the propriety and integrity of payroll costs.

Agreed. The Department is reviewing the system of financial controls operated by the Personnel Branch, beginning with the Area Personnel Officers.

### CASH RECEIPTS

In certain instances cash receipt records maintained by other divisions of the Commission are not subject to verification by the Finance Office.



## OBSERVATIONS AND RECOMMENDATIONS

## COMMISSION'S COMMENTS

- All systems of internal control over funds received by the Commission should be approved by and subject to the review of the Financial Officer.

Agreed. Procedures are being reviewed to ensure that revenue collection staff is familiar with Treasury Board revenue collection regulations and are subject to audit.

## ACCOUNTS RECEIVABLE

There is a lack of effective segregation of duties in the Finance Office.

- Duties of employees in the Finance Office should be segregated to strengthen internal controls over billing and accounts receivable, and reduce the possibility of errors, omissions or misappropriation of funds.

Agreed. This will be reviewed to ensure the utmost segregation.

## CAPITAL EQUIPMENT

- To ensure that all fixed assets are included in inventory, acquisitions of capital items should be reconciled at least annually to the related objects of expenditure in the Commission's principal accounting system.
- Duties of personnel concerned with fixed assets should be segregated to ensure an independent verification of assets on hand with the appropriate records.

Agreed.

Agreed.

## INTERNAL AUDIT

The programs and accounts of the Commission are not currently subject to internal audit.

## OBSERVATIONS AND RECOMMENDATIONS

- Independent internal financial audits should be performed in accordance with the directives and guidelines set out in the Treasury Board Guide on Financial Administration.

## BUDGETARY CONTROL

- The Commission should continue efforts already under way to improve budgetary control and performance measurement, particularly in areas with a variable demand for services.

## INTERNAL REPORTING

Two separate sets of monthly financial reports are prepared for the Grain Commission. Each has limitations.

- The quality, timeliness and form of financial reports should be refined and upgraded to eliminate the requirement for presenting management with financial information generated by two different systems.
- The reporting system should be modified to accommodate payroll accruals so that the effects of timing differences are eliminated.
- Steps should be taken to integrate commitment information into the financial reporting system to assist certifying officers in determining unencumbered balances available and to assist payment officers in meeting their responsibilities.

## COMMISSION'S COMMENTS

Agreed. This will be included within the scope of the departmental internal audit function.

Agreed.

Deficiencies in the financial reports of the Department of Supply and Services necessitated alternative means to obtain timely and accurate information.

Agreed.

Agreed.

Agreed. Steps under way to implement.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**COMMISSION'S COMMENTS**

- Performance measurement systems should be developed and incorporated into the financial reports so deviations between planned and actual measures of performance can be readily analysed and the effect of variations in operational activities and resource requirements can be assessed.
- Variance analysis should be improved to provide line management with more meaningful information to indicate what corrective action is required.

Agreed. This is already under way in initial steps.

Agreed.

**EXTERNAL REPORTING**

- The financial statements used in the Report of the Canadian Grain Commission should be the same as those published in the Public Accounts of Canada.

Agreed.



## MINISTRY OF STATE FOR SCIENCE AND TECHNOLOGY

Observations and Recommendations as at April 1977.

Ministry's Comments as at June 1977.

### OBSERVATIONS AND RECOMMENDATIONS

### MINISTRY'S COMMENTS

#### DESIGNATION OF SENIOR FINANCIAL OFFICER

The position of Senior Financial Officer has not been formally designated.

- The Secretary should officially designate the Director General, Corporate Services Branch as the Senior Financial Officer of the Ministry.

Position description of the Director General, Corporate Services Branch, will be modified to clarify this point.

#### COMMUNICATION OF FINANCIAL POLICIES AND PROCEDURES

The need to update and upgrade the existing financial procedures manual is recognized. However, no timetable has been set for completion and little has been accomplished.

- A timetable for preparing the financial procedures manual should be set and every effort made to complete it promptly.
- Position descriptions should be supplemented with statements describing duties of all staff with financial responsibilities, to ensure that each officer recognizes these responsibilities and to document the relationship of each position within the overall financial function.

Agreed. Revisions to the financial manual are now being made. Target date for completion is October 1, 1977.

Appropriate position descriptions will be supplemented to clarify these points.



## OBSERVATIONS AND RECOMMENDATIONS

## MINISTRY'S COMMENTS

### DELEGATION OF AUTHORITIES

The Delegation of Authorities document was issued under the signature of the previous Secretary of the Ministry.

- The Delegation of Authorities document should be reviewed and re-issued under the signature of the new Secretary of the Ministry.

Action is being taken.

### INTERNAL CONTROL

Some of the internal controls surrounding receipt of goods and invoice handling need strengthening.

- Internal control over the purchasing and receiving functions should be strengthened by requiring that:
  - all goods be received centrally;
  - receiving documents be matched with other purchase documents before spending and payment approvals are given; and
  - all invoices be routed to the Financial Services Division for registration before being matched with receiving documents.
- Rubber stamps should be designed and used on packing slips and invoices to indicate the verification procedures performed. Furthermore, invoices should be cancelled immediately after payment authorization to preclude the possibility of them being resubmitted for payment.

Procedures are being amended accordingly; will include pre-audit of accounts payable.

Action is being taken: invoices will be stamped "PAID" before filing.

## OBSERVATIONS AND RECOMMENDATIONS

- Batch controls should be established before cheque requisitions are authorized to ensure that unauthorized documents cannot be inserted and that the requisitions cannot be altered.

## CONTRIBUTIONS

- Agreements to contribute to the support of organizations should be amended to require reports to the Ministry regarding compliance with the agreements by recipients.

## CONTROL OVER FIXED ASSETS

- A listing of all missing, surplus or obsolete equipment should be prepared for review by senior management and appropriate action taken.
- Procedures for an annual physical verification of assets should be prepared and included with the administrative procedures documentation.
- The Senior Financial Officer should ensure that adequate fixed asset records are produced and maintained.

## FINANCIAL REPORTING

- The management report should be altered to include analyses of significant variances.

## MINISTRY'S COMMENTS

Procedure is being amended; batches will be prepared before requisitions are signed under Section 26.

The feasibility of obtaining reports is being examined.

Agreed. New procedures are being prepared by Administrative Services Division.

Agreed. Will be included in new procedures.

Agreed. Will be included in new procedures.

Variance analyses will be prepared on significant items of expenditure.



## NATIONAL LIBRARY AND PUBLIC ARCHIVES

Observations and Recommendations as at September 1976.

Departmental Comments as at July 1977.

### OBSERVATIONS AND RECOMMENDATIONS

### DEPARTMENTAL COMMENTS

#### ROLE OF THE SENIOR FINANCIAL OFFICER

- A Senior Financial Officer position should be established requiring strong financial qualifications and experience. The principal responsibilities of this Officer should encompass all aspects of financial management and control. He should report directly to the Deputy Heads of the two Departments and should be a member of the management committees at the highest level in each.

The Departments do not object in principle to this concept. In practice they must comply with directives from the Treasury Board regarding organizational structure. The Treasury Board recently reviewed and approved a departmental organization realignment which provides for a division dedicated solely to financial administration. This division is headed by a Senior Full-Time Financial Officer who is an experienced professional accountant. He reports to a Senior Financial Officer (Director of Administration and Technical Services) whose terms of reference clearly reflect the functions and responsibilities outlined in the Treasury Board Guide on Financial Administration. The Senior Financial Officer reports directly to both Deputy Heads.

#### FINANCIAL MANUAL

A financial manual is being drafted although specific plans for implementation have not been formulated.

- The financial manual should be implemented as soon as possible. Responsibility for reviewing and amending the draft financial manual should be assigned to the Senior Financial Officer to ensure that it gives adequate consideration to all aspects of internal control. He

It is agreed that a financial manual should be implemented as soon as possible. The current departmental plan indicates completion of the manual by December 31, 1977, and it will be reviewed and approved by the Senior Financial Officer.

## OBSERVATIONS AND RECOMMENDATIONS

## DEPARTMENTAL COMMENTS

should also be responsible for ensuring that its contents are communicated to all departmental officers, for maintaining it on an ongoing basis, and for seeing that it is consistently applied.

### TRAINING IN FINANCIAL ADMINISTRATION

A formal plan for training financial officers and program managers in the financial aspects of their function has yet to be developed.

- A training program, approved by the Senior Financial Officer, should be developed to familiarize financial officers and program managers with the Departments' financial administration policies and procedures.

A training program has been developed for financial officers. A training program is also planned for all personnel within both Departments having responsibilities in the financial administration function.

### REPORTING RELATIONSHIPS

- Functional reporting relationships between the Senior Financial Officer and administrative officers having significant financial responsibilities should be clearly established, documented and communicated.

A memorandum will be prepared and circulated to formalize the functional reporting relationships between the Senior Financial Officer and the administrative officers of the Departments.

### PROGRAM FORECASTS

Program Forecasts tend to reflect the accumulative resource requirements of individual managers rather than a co-ordinated departmental submission.

- To facilitate the preparation of Program Forecasts, senior management should inaugurate methods for documenting and for communicating objectives and priorities of programs

During preparation of the 1978-79 Program Forecasts, the methodology and techniques previously used were changed to bring them in line with this observation and recommendation.



## OBSERVATIONS AND RECOMMENDATIONS

to managers. Methods should allow successive levels of management to exercise a strong challenge role in evaluating Program Forecast information from subordinate managers.

Financial personnel involved in consolidating Program Forecasts do not play an active part in developing and challenging financial data and the long-term cost implications of program initiatives.

- The role of financial personnel should include evaluating and challenging the financial data included in Program Forecasts as well as advising on the long-term cost implications of alternative ways of reaching program objectives.

## BUDGETS AND BUDGETARY CONTROL TECHNIQUES

Budgetary control does not include effective use of annual budgetary control plans, variance analysis and timely forecasts.

- The Senior Financial Officer should ensure that policies and procedures relating to the preparation and use of budgets are developed and communicated to those concerned. This would include systematic variance reporting and analysis on a departmental basis as well as preparing financial forecasts of year-end budgetary position at the responsibility centre level and accumulating them to the departmental level for use by senior management.

## DEPARTMENTAL COMMENTS

Improvements will be continued in this area.

The planned restructuring and augmentation of resources in the Financial Administration Division will bring about such an evaluation and benefit-cost analysis role.

This aspect of financial administration will be encompassed in the departmental financial administration manual currently being produced.

## OBSERVATIONS AND RECOMMENDATIONS

## DEPARTMENTAL COMMENTS

### COSTING OF FUNCTIONS AND SERVICES

Information produced by the Departments' financial system is not clearly related to the activities and objectives which underlie departmental programs.

A departmental planning committee is being developed within the Public Archives and one of its initial tasks will be to review the departmental activities and objectives to determine whether they should be modified. The National Library is conducting an introspective review of departmental operations, aims and objectives.

- Information about cost of the functions and services that underlie programs should be produced under the direction of the Senior Financial Officer.

A system which should provide information pertaining to the cost of functions and services will be developed subsequent to recommendations made based on these studies.

### PERFORMANCE MEASUREMENT

Performance measurement reports do not specifically relate data to functions and services and are not, as yet, being used by management to evaluate program achievement in relation to resource consumption.

- Performance measurement systems should be further developed and modified so that reported measures of operational efficiency are more clearly related to program objectives.
- Instruction on the use, limitations and terminology of performance measurement systems and reports should be provided to departmental officers.
- Deviations between planned and actual performance should be subject to systematic analysis and should be reported to senior management so that the effect on resource requirements of variations in levels of activity can be fully assessed.

Agreed.

Agreed.

Agreed.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**DEPARTMENTAL COMMENTS**

**EXPENDITURE APPROVAL**

There are no effective measures to ensure adherence to consistent and adequate procedures with respect to the certification of receipt of goods and services.

- Procedures should be incorporated into the financial manual requiring that all supporting documentation for acquiring goods and services be retained and for identifying the steps to be taken before actual certification of receipt of goods and services.

Agreed. Action will be taken to incorporate such procedures in the departmental financial manual.

- A stamp should be used on documents supporting requests for payment so that staff can provide evidence that all required pre-audit steps have been performed.

Agreed.

Documents supporting a payment are not cancelled after the payment has been processed.

- After payment, supporting documents should be cancelled to prevent reuse.

Agreed.

**CONTROL OF PAYROLL  
EXPENDITURES**

A senior financial officer has not been given the responsibility for ensuring that the financial controls in the total payroll expenditure system are adequate.

- The Senior Financial Officer should ensure the adequacy of control over all aspects of the payroll expenditure system including initiation of expenditure, distribution of payroll cheques, and reporting of payroll expenditures.

Agreed.

## OBSERVATIONS AND RECOMMENDATIONS

## DEPARTMENTAL COMMENTS

### DELEGATION OF AUTHORITY

Specimen signature cards which support delegated authority under the Financial Administration Act are incomplete and not up to date.

- To ensure proper exercising of signing authorities, specimen signature cards should be kept up-to-date and reviewed at least annually. They should be referred to regularly during the pre-audit function to verify proper exercising of signing authority.

Agreed. Specimen signature cards are currently being updated, and at the same time, the signing authorities for both Departments are being reviewed before submission to the Minister for approval.

### REVENUE AND RECEIVABLES

Policies covering charges for services provided to the public or other departments have not been documented and approvals by appropriate authorities are not in evidence.

- Policies and procedures on revenue charging and collecting should be formalized and the necessary Treasury Board approval obtained to charge for services. Rates should be reviewed at least annually to ensure that they reflect current policies and costs.

There are no appropriate control procedures for ensuring that all services provided are in fact billed.

- Procedures should be developed to ensure that all services performed are duly billed and that payment is promptly collected.

Agreed. Submissions to the Treasury Board are being prepared to obtain approval in principle to charge for services.

Agreed.

## OBSERVATIONS AND RECOMMENDATIONS

## DEPARTMENTAL COMMENTS

### CASH RECEIPTS

Weaknesses exist in the internal control procedures relating to receipt and deposit of monies.

- To improve internal control over cash receipts, all mail should be opened by two people at a central point, copies of cash blotters should be retained by the mail room and the cashier and should be duly signed by all parties involved in processing cash receipts.

Agreed. Corrective actions are being taken.

### INVENTORIES OF FIXED ASSETS

Policies and procedures relating to recording and controlling of equipment and furniture inventories have not been fully developed and implemented. Complete inventory records and adequate control procedures are not maintained.

- Inventory records of fixed assets should be completed and policies and procedures for inventory control should be implemented.
- To ensure that all fixed assets have been inventoried, additions to inventory records should be reconciled at least annually to the expenditures for the corresponding period in the related objects of expenditure as recorded in the principal accounting system.

Agreed. Arrangements are being made to assign resources to this project immediately. Policies and procedures will be included in the departmental Materiel Management Manual currently being revised.

Agreed. Policy and procedures will be included in the departmental Financial Administration Manual being prepared.

### TRUST ACCOUNTS

For the purpose of financial reporting, suspense accounts are categorized as trust accounts. Trust



## OBSERVATIONS AND RECOMMENDATIONS

## DEPARTMENTAL COMMENTS

funds are operated independently of central financial controls.

- A clear distinction in accounting and reporting should be made between trust and suspense accounts. Receipts into and disbursements out of these accounts should be processed under normal financial controls and approvals.

Revisions already effected in the departmental Code of Accounts are expected to resolve this problem.

### CENTRAL MICROFILM UNIT REVOLVING FUND

A number of deficiencies exist in the financial functions of the Central Microfilm Revolving Fund, the most significant of which is the lack of appropriate cost data relating to the services provided by the Central Microfilm Unit.

- The Senior Financial Officer should accelerate efforts to improve financial management and control in the Central Microfilm Unit. This would include an effective costing system, preparation of sales and expense budgets, more timely financial statements, integrating budgets with the financial statements and reporting and analysing variances between budgeted and actual results.
- A report of accounts receivable on an aged basis should be regularly prepared to stimulate routine collection of overdue accounts within the Revolving Fund.

Agreed. Significant improvements have already been effected. A financial unit dedicated to serving the CMU has been organized, staffed and located at the plant.

Agreed. It is anticipated that this situation should improve during the fiscal year 1977-78.

### INTERNAL AUDIT

Although staff has been recruited for the Departments' internal audit function, terms of reference and

## OBSERVATIONS AND RECOMMENDATIONS

reporting relationships have yet to be firmly established and audits have yet to be conducted.

- The internal audit function should become operational as quickly as possible, and terms of reference should be established to guarantee independence and objectivity of this function. An audit committee consisting of senior management should be formed to review the scope, findings and follow-up of the studies carried out by the internal audit group.

## FINANCIAL REPORTING

Financial reporting systems are not fully supportive of departmental management.

- The quality, timeliness and format of financial reports should be refined. Significant financial information should be summarized to the extent necessary for various levels of management in the form of management statements. Commitment information should be segregated from expenditure information but combined into one report.
- Responsibility centres should augment financial reports by preparing projections of year-end variances using standard procedures and techniques developed and communicated under the direction of the Senior Financial Officer. Such projections should be combined to produce a departmental projection for use by senior management.

## DEPARTMENTAL COMMENTS

Agreed. Terms of reference, functions and reporting relationships have been established and documented. Independence is provided by having the function reporting directly to both Deputy Ministers. The first full-scale audit began in May 1977. Audit committees, composed of the Senior Management Committee of the Public Archives, and the Executive Committee of the National Library have been established.

Agreed. A revised commitment control system is planned for 1978-79. Report formats for 1977-78 have been redesigned to include both commitment and expenditure data.

Agreed. This concept is being included in the departmental administration manual.

**OBSERVATIONS AND  
RECOMMENDATIONS**

- Methods should be developed to educate management in the appropriate use and limitations of financial reports.

**DEPARTMENTAL COMMENTS**

Agreed. This type of training will be included in the overall financial training plan for line managers of the departments.

## NATIONAL MUSEUMS OF CANADA

Observations and Recommendations as at November 1976.

Corporation's Comments as at May 1977.

### OBSERVATIONS AND RECOMMENDATIONS

### CORPORATION'S COMMENTS

#### ORGANIZATION OF THE FINANCIAL FUNCTION

##### SENIOR FINANCIAL OFFICER

- The Assistant Secretary-General, Planning and Administration should be designated as Senior Financial Officer responsible for financial management and control of the Corporation. His title should be changed to include "Finance". The Secretary-General should communicate this designation in writing, to senior personnel and to all who perform financial functions in the Corporation.

Agreed.

- The Secretary-General should strengthen and clarify the functional direction given by the Senior Financial Officer, by emphasizing his responsibility for the system of financial administration in the Corporation. Consequently, the Senior Financial Officer must prescribe, on behalf of the Secretary-General, and after appropriate consultation with the Assistant-Directors, Administration, what shall be done in the area of financial policies, systems, procedures, plans and reports.

Agreed.

#### STAFF TRAINING

The Corporation encourages its financial staff to take recognized courses from professional accounting bodies, such as R.I.A. and

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

C.G.A. It has no financial training program of its own for line managers with financial responsibilities.

- The Senior Financial Officer should ensure that line managers who perform financial functions within the Corporation are encouraged to attend training programs in financial management.

Training sessions are being introduced.

## PERFORMANCE APPRAISALS

The Director of Financial Services is active in selecting and appointing the financial staff at the various museums but he does not participate in appraising their performance although they are functionally responsible to him.

- The functional direction the Director of Financial Services gives to the museums' Financial Advisors should be strengthened by requiring that he contribute directly to performance appraisals of all financial officers.

Agreed.

## PROCEDURES MANUAL

The Corporation has circulated a "draft" Procedures Manual. The manual is incomplete and has not been officially issued. The lack of a manual and of regular business meetings has resulted in poor communication within the financial function.

- The Procedures Manual should be written on a Corporation-wide basis, except where individual museums have unique considerations that would preclude their compliance

The manual is being compiled with this intent.



## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

with the general procedures. In such cases, procedures prepared by the museum affected should be incorporated in the Corporation's manual after approval by the Senior Financial Officer.

- The Secretary-General should ensure that the manual is issued under his directive, that it is complete in every respect and that the procedures it contains are followed.
- The Senior Financial Officer should establish proper communications within the financial function by reinstating regular business meetings to discuss common problems and to agree on solutions.

Agreed.

Meetings have taken place since the audit and this practice will continue.

## DELEGATION OF AUTHORITY

The Delegation of Authority document is not subject to periodic reviews to ensure it remains current.

- The Senior Financial Officer should make certain of periodic reviews to ensure that the Delegation of Authority document remains responsive to the current needs of the Corporation.

Agreed.

## PURCHASE ACCOUNT

The Corporation receives a non-lapsing allotment for the cost incurred in procuring artifacts for the national collection. Guidelines have not been promulgated regarding costs to be charged to this account.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

- The Corporation should incorporate, in its Procedures Manual, specific policies or guidelines as to the nature of expenditures that may be charged to the Purchase Account as part of the purchase cost of an object as intended by the Act.

The Procedures Manual will include this recommendation.

## SPECIAL ACCOUNT

The Corporation also receives a non-lapsing allotment for costs incurred in publishing books, pamphlets, etc. In determining the unit costs of publications, in general only printing and typesetting costs are considered. Subsequently, proper pricing decisions have been difficult to make.

- The Senior Financial Officer should establish procedures for accumulating all costs related to publications and making the information available to management to facilitate proper pricing decisions.

Agreed.

## BOUTIQUES

Each museum houses a boutique selling souvenirs and publications. None prepare a financial statement itemizing operating costs, profits or loss, etc.

- The Senior Financial Officer should implement the preparation and review of monthly financial management reports for boutique operations, including information on operating costs, to give management more information about operating results and to facilitate sound management decisions.

Our monthly management report now includes this recommendation.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**CORPORATION'S COMMENTS**

**ACCOUNTS RECEIVABLE**

- The Senior Financial Officer should ensure the strengthening of controls over the accounts receivable function. Such controls would include the preparation of a monthly aged trial balance reconciled to the control account, monthly statements to customers and proper segregation of duties.

Implementation already under way.

**ARTIFACTS**

The Financial Services Division has no functional responsibility for artifacts, which include all the objects of the national collection.

Controls over artifacts are poor and there are few physical inventories.

- The Corporation should develop and implement standard policies and procedures to ensure proper control of the artifacts including a physical inventory that gives consideration to the nature and value of each item. The Senior Financial Officer should exercise functional responsibility for these controls.

Agreed.

**FIXED ASSETS**

In most cases, no procedures exist for controlling fixed assets.

Where procedures do exist, financial officers are not involved in their development, review and evaluation.

- The Corporation should establish and enforce financial policies relating to the control of fixed assets, taking into account their nature and monetary value.

Agreed.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

- The Senior Financial Officer should exercise functional responsibility over the control of fixed assets. Controls should include reconciling annual additions to the fixed asset control account and the corresponding objects of expenditure. The fixed asset control account should also be adjusted for properly authorized disposals or deletions during the year. Such policies should also ensure periodic physical counts agreed to the related fixed asset control account.

Policy regarding this will be included in the Administrative Service Manual now being compiled.

## INVENTORIES

Inventories consist of publications for the various museums. Senior management does not receive information adequate for assessing current and future publication requirements.

- Management should produce and distribute to all museums regular sales analyses and statistics on publications. These statements could be used to determine profitability of the various inventory items and could be instrumental in planning future publications and in purchasing items for resale.
- The Corporation should establish and monitor standard policies on inventory turnover ratios to be used in determining quantities for publications and other resale inventories.

Agreed.

Agreed.

## INTERNAL AUDIT

- The Corporation should establish an Audit Committee. This Committee should determine the scope of audits

The Audit Committee has now been appointed, comprising three members of the Board of Trustees.

## **OBSERVATIONS AND RECOMMENDATIONS**

## **CORPORATION'S COMMENTS**

and areas to be reviewed, and then monitor corrective action resulting from the audit findings.

### **PROJECT MANAGEMENT**

(This recommendation applies to the Museum of Science and Technology). Projects such as restoration of artifacts are proposed and approved before obtaining cost estimates and feasibility reports.

- The Corporation should establish planning and review procedures before making decisions on significant projects. Such procedures should require involving the finance and general technology functions in preparing detailed cost estimates, and reporting on the technical data and the feasibility of the alternatives for the project.

Considerable progress has been achieved in this area and we will continue to implement the full intent of this recommendation.

### **PROJECT EVALUATION**

Detailed project descriptions seldom accompany annual budgets prepared by responsibility centre managers. Additional descriptions, if required, are given orally during the budget review.

- The National Museums of Canada should establish a policy that all project descriptions submitted with a project budget include objectives, cost, time to complete, expected accomplishment or results, etc.
- The Senior Financial Officer should ensure that projects are submitted for periodic review, challenge and assessment at the various development stages.

Agreed.

Projects are now being reviewed by the Directors of the Museums.



## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

### EVALUATION OF CONTINUING PROGRAMS

Major portions of the National Museums of Canada continuing programs are included in the "A" budget element of the Program Forecast, and therefore are not automatically subject to a regular review and challenge.

- The National Museums of Canada should develop a plan for reviewing and challenging all continuing programs on a regular basis. Reviews should be conducted by the various divisions and museums with appropriate support from the Senior Financial Officer.

See above.

### BUDGETARY CONTROLS

In many instances, the "budgeted" amounts included in the Corporation's monthly financial statements are one-twelfth of the annual budgeted amount.

- The Senior Financial Officer should implement procedures for allocating all budgeted expenditures according to the expected spending pattern.

Time phasing of expenditures is now an accepted practice by our responsibility centre managers.

### FINANCIAL REPORTING

Monthly financial statements are prepared at four separate levels within the Corporation. Poor format, lack of timely information and lack of understanding have contributed to this duplication of effort.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**CORPORATION'S COMMENTS**

- In reviewing deficiencies in the reporting system, the Senior Financial Officer should continue his efforts to provide adequate financial statements. In so doing, he should solicit and review needs of users and seek to develop a format responsive to them.
- Formal training sessions to explain the various financial reporting systems should be given to all responsibility centre managers so they will be better able to interpret the information included in the financial reports.

Agreed.

Agreed.



## NATIONAL RESEARCH COUNCIL OF CANADA

Observations and Recommendations as at February 1977.

Council's Comments as at June 1977.

### OBSERVATIONS AND RECOMMENDATIONS

### COUNCIL'S COMMENTS

#### THE SENIOR FINANCIAL OFFICER

The Vice-President (Laboratories) has the responsibility for financial administration and control at the Council. Since this is in addition to his other diverse responsibilities, including the management of a large research program, time available to focus on a number of financial matters is limited.

- The Council should establish a position of Senior Financial Officer reporting directly to the President. This officer should be competent, experienced and professionally qualified and should be responsible for all aspects of financial management and control. He should provide functional direction in financial matters to all divisions of the Council.

The position of Senior Financial Advisor was established in 1966, and has provided capable assistance to the Vice-President (Laboratories). Nevertheless, a careful review will be made with a view to placing greater emphasis on the financial administration and control function.

#### COMMUNICATION OF FINANCIAL REQUIREMENTS

- The Council should accelerate the development of an effective financial manual under the direction of the Senior Financial Officer and issue it under authority of the President. Communication of financial requirements should be improved by establishing regular review meetings between financial staff and administrative personnel performing financial functions.

Agreed. The need for a comprehensive financial manual has been recognized for some time, and steps will now be taken to produce such a manual incorporating the new financial control system under development.

## OBSERVATIONS AND RECOMMENDATIONS

## COUNCIL'S COMMENTS

### TRAINING AND DEVELOPMENT

The absence of a formal training program for financial staff jeopardizes the effectiveness and continuity of financial services.

- The Council should implement a formal training plan for all financial staff and for line managers performing financial duties. Agreed.

### FINANCIAL DUTIES, RESPONSIBILITIES AND PERFORMANCE EVALUATIONS

- The Council should develop an appropriate statement of duties for all financial staff and for other staff performing financial duties. These statements should form the basis for reviewing performance evaluations regularly and should be functionally approved by the Senior Financial Officer. Agreed.

### CODE OF ACCOUNTS

The account coding structure at the Council identifies responsibility centres, projects, and minor classifications rather than specific units to which both budgetary and expenditure responsibility can be assigned, and responsibility centre managers held accountable.

- A coding structure should be established that recognizes the organizational units to which budgetary responsibility can be assigned. Preferably, this document should be incorporated in the financial manual. Agreed.



**OBSERVATIONS AND  
RECOMMENDATIONS**

**COUNCIL'S COMMENTS**

**DELEGATION OF AUTHORITIES**

The signing authorities of the Council are not entirely consistent with those suggested in the Treasury Board Guide on Financial Administration, and include the provision for employees to sign 'as agents' in the absence of their superiors.

- The delegation of financial authorities should be reviewed with provision to:

- ensure that exercise of Section 26 authority pursuant to the Financial Administration Act is delegated to positions consistent with those suggested in the Treasury Board Guide on Financial Administration;

Agreed.

- rescind the authority of subordinates to sign 'as agents' for superiors; and

Agreed. Except for the provision of agents which permits centralized administrative handling of contracting documents, etc. for which approval in writing has already been given by the officer with budgeting authority.

- place dollar limits on all positions exercising payment authority.

Agreed.

**ACCOUNT VERIFICATION**

- The Financial Services Branch should provide functional control over the account verification and payments procedure by:

- ensuring that officers exercising financial authority clearly understand its significance;

Agreed. Implementation already under way.

## OBSERVATIONS AND RECOMMENDATIONS

## COUNCIL'S COMMENTS

- ensuring that the responsibilities and procedures for review and approval are clearly stated and documented in the Standard Operating Policies and Procedures manual;
- directing the application of a verification 'stamp' to each invoice; and
- monitoring and, if required, reporting to division heads the extent to which the requirements are complied with.

Agreed.

Agreed.

Agreed. Steps already taken.

## COMMITMENT CONTROL

- The Council should thoroughly review with divisions changes in the commitment control system to ensure that it meets their information and control needs and that features such as batch and cut-off controls between divisions and headquarters are established.

Agreed. Basic system requirements introduced April 1, 1977 are subject to enhancement to meet specific and differing requirements of Divisions.

## PAYROLL

- The Senior Financial Officer should establish financial controls stipulating that:
  - persons responsible for approving payroll input data do not receive or distribute payroll cheques; and
  - payroll changes are to be reconciled monthly and reviewed and signed by a senior financial officer.
- All weekly leave and attendance reports should be approved by the employee's supervisor.

Agreed.

Agreed.

Agreed.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**COUNCIL'S COMMENTS**

**TRAVEL**

Although travel requests require a director's approval, this policy is not always enforced and actual claims are not always approved by the claimant's superior.

- The Senior Financial Officer should ensure that travel requirements are approved in accordance with Council policies and all travel claims should be approved by the claimant's immediate superior or someone at a higher level.

Agreed.

**JOURNAL VOUCHERS**

The absence of approval procedures and supporting documentation for journal vouchers provides an opportunity for manipulating the accounts and increases the possibility that underlying reasons for errors or deficiencies in the system will go undetected or unchallenged.

- Journal vouchers should be properly documented and approved. Approval limits for journal vouchers should be established and set out in the delegation of authorities document.

Agreed. Procedures are being modified to meet this recommendation.

**EXPENDABLE RESEARCH EQUIPMENT**

The Council lacks well-defined criteria for applying the classification "expendable research equipment".

- The use of the classification "expendable research equipment" should be closely controlled by:

## OBSERVATIONS AND RECOMMENDATIONS

## COUNCIL'S COMMENTS

- establishing and communicating specific criteria for items to be charged to this expenditure classification; and
- subjecting purchase proposals to the same type of management review as capital acquisitions.

Agreed. Changes in the use of this classification already under way, and will be completed by 1978-79.

Agreed.

## REVENUE - PUBLICATIONS

### Billings

- Financial management and control over publications should be strengthened by:

- providing adequate explanation and approval on customer orders for photocopying that are marked "no charge" or "cancelled";
- reviewing and updating on a regular basis the "free-issue" list for all the Council publications;
- segregating the responsibilities for shipping and invoicing publications; and
- establishing and implementing a prepayment policy for subscriptions.

Agreed.

Agreed.

Agreed. The implementation of this recommendation will be handled in conjunction with the development of a new computerized system.

Agreed.

### Costing

The Council publishes 11 scientific journals. However, not all costs are reported for each journal and revenues are not recorded by journal.

## OBSERVATIONS AND RECOMMENDATIONS

## COUNCIL'S COMMENTS

- The Council should establish systems for routinely reporting costs and revenue of each of its research journals to management as a basis for informed selling price and subsidy decisions.

Agreed. Steps to have revenue reported by journal have already been taken and are effective April 1, 1977.

## REVENUE - SERVICES

### Progress Billings

- The Council should rigorously monitor and enforce its policy regarding progress billing, to ensure prompt billing on completion of sections of major projects. In customer contracts or quotations, provision should be made for progress billings.

Agreed.

### Standard Rates

Since the standard billing rates for professionals have not been revised since 1975, they do not reflect the increased costs to the Council. Where there are variations from standard hourly rates, there is no explanation or approval.

Protracted negotiations and arbitration in 1976 delayed final approval to May 1977; and new rates have now been approved effective June 1, 1977.

- The Council should adjust its schedule of standard labour rates for services on an annual basis, and at the time of each major labour settlement.
- Where there are special rates or reductions in billings, these should be supported by adequate explanations, and should be approved by the director on the requests for invoicing.

Agreed.

Agreed.



OBSERVATIONS AND  
RECOMMENDATIONS

## COUNCIL'S COMMENTS

**WORK-IN-PROCESS**

- Financial Services Branch should establish numerical control over all work-in-process from the time of authorization to final billings, to ensure billing for all services performed. Agreed.

**CASH**

- The procedures for receiving and recording funds at the Council should be revised to correct internal control deficiencies. The procedures should be documented in the Standard Operating Policies and Procedures Manual and should provide for a proper segregation of duties and independent reconciliation of receipts to amounts reported in the principal accounting system. Agreed.

**ACCOUNTS RECEIVABLE**

The existence of large outstanding receivable balances at the Council results in potentially significant carrying costs and distorts the matching of costs and revenues. The same section initiates and approves credit notes for customers.

- To minimize the cost of carrying large accounts receivable, the Council should establish and enforce credit policies and procedures, including charging interest on overdue, non-government accounts. Agreed.
- All credit entries should be reviewed and approved by financial officers independent of those responsible for maintaining and controlling accounts receivable records. Agreed.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**COUNCIL'S COMMENTS**

**DIVISIONAL SUPPLY OFFICES**

The Financial Services Branch reviews neither systems and procedures for procurement nor methods of recording and safeguarding inventories of divisions. This has led to internal control deficiencies in the divisional supply offices.

- The Senior Financial Officer should provide functional direction over divisional supply systems to ensure:

- a segregation of duties between those ordering and receiving goods and those approving invoices; and

Agreed.

- that the procedures for recording and controlling inventories are consistent with the Treasury Board Guide on Financial Administration.

Agreed.

**EQUIPMENT - LOANS**

The authority under which the Council may loan equipment is not clear. The authority for, and the records of, any equipment on loan are spread throughout the divisions of the Council.

- The authority to make loans of equipment to non-government entities should be confirmed before making any more. Loans should be recorded centrally under functional control of the Council Financial Services Branch.

Agreed.

**EQUIPMENT - DISPOSAL**

Since one individual controls all surplus equipment records, there is no assurance that all redundant assets

## OBSERVATIONS AND RECOMMENDATIONS

## COUNCIL'S COMMENTS

have been properly accounted for until sold or otherwise disposed of.

- The management and control of surplus assets should be improved by ensuring that records are co-ordinated and reconciled by someone independent of the interim custodians -- preferably a central financial unit.

Agreed.

### SPECIAL FUND

The Council maintains a Special Fund representing the unused portion of revenues earned during the year, using it for working capital purposes. The authority for its establishment and its use is not clear.

- The Council should state the intent and application of the Special Fund and obtain appropriate authority for its use.

Agreed.

### PREPARATION OF PROGRAM FORECAST AND MAIN ESTIMATES

With no budget manual and only limited guidelines, budgeting methods of the divisions vary widely and there are virtually no records of decisions. Financial Services is largely confined to a co-ordinating and collating role.

- Formal procedures and guidelines should be prepared and issued for Program Forecast and Main Estimates submissions, including a requirement for records of decisions taken.

Agreed.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**COUNCIL'S COMMENTS**

- The role of Financial Services in providing functional direction and guidance, detailed analysis and challenge should be developed.

Agreed.

**BUDGET INPUT TO FINANCIAL  
REPORTING SYSTEM**

In allocating its budget, the Council allocates a large amount to the category "Balance of Budget" rather than to the regular reporting objects.

- The use of the category "Balance of Budget" should be discontinued and all anticipated expenditures should be allocated to the standard objects, to give sound financial control through variance analysis and to provide a basis for future financial planning.

Agreed.

**CAPITAL BUDGETS**

There has been little functional guidance or direction by Financial Services in preparing capital budgets.

- The Council should develop proper procedures for sound multi-year capital budgeting and ensure that proper direction and challenge are provided by Financial Services.

Agreed. Procedures to develop a multi-year capital plan are being implemented.

**ACTIVITY COSTING**

The Council costing and coding system does not provide for allocating expenditures by activity, only by responsibility or cost centre.

## OBSERVATIONS AND RECOMMENDATIONS

## COUNCIL'S COMMENTS

- The Council should review and revise its costing and coding system to provide for reporting expenditures by activities.

Agreed. Procedures have been initiated to improve the activity reporting system.

## INTERNAL AUDIT

The Council has no internal audit function, although the large degree of decentralization and autonomy granted to divisions, together with the significant resources managed, has created a situation in which senior management must rely heavily on systems of internal control.

- The Council should establish an internal audit unit to carry out financial audits with emphasis on reviewing the effectiveness of financial controls in the Council's system of financial administration. This unit should report to an audit committee composed of senior Council executives.

Agreed. Council is arranging for internal audit through a contract with DSS.

## WORK ORDER REPORTING

The content and form of the reports on work order costs preclude meaningful analysis, since budgeted costs are not broken down into their labour and material components to allow comparison with actual costs.

- The Council work order reports should be structured to facilitate comparisons to budget and cost control for labour and material.

Agreed.



**OBSERVATIONS AND  
RECOMMENDATIONS**

**COUNCIL'S COMMENTS**

**EXTERNAL REPORTS**

The Council Annual Report does not include financial disclosure of major capital projects, significant long-term commitments and other material items.

The timing of the Annual Report precludes the preparation of audited financial statements for inclusion in the report.

- Financial disclosure in the Council Annual Report of significant long-term financial commitments, major capital project costs and other material items should be improved together with clear descriptions in the notes.
- If the Council publishes a set of unaudited financial statements as part of its Annual Report, it should indicate that they are not audited.

Agreed.

Agreed. This recommendation has been applied to financial statements in this year's President's Annual Report.



**NORTHERN TRANSPORTATION COMPANY LIMITED  
AND ITS WHOLLY-OWNED SUBSIDIARY  
GRIMSHAW TRUCKING AND DISTRIBUTING LTD.**

Observations and Recommendations as at April 1977.

Company's Comments as at June 1977.

The importance Company management attaches to effective operation of the financial management and control system is evidenced by the substantial improvements it made in the system since a Company-requested management consultant's report on the financial affairs of the Company was received in 1975.

Many of the weaknesses identified in our report result from a lack of systems documentation and of evidence that vital control procedures are being performed. Thus management does not have the necessary assurance that these vital controls exist and are operating continually and effectively. Consequently, there is scope for further improving the financial management and control system to enhance the effectiveness of control and to assure management that procedures are implemented and adhered to.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**COMPANY'S COMMENTS**

**FINANCIAL RESULTS OF OPERATIONS**

During the last two years the Company has prepared considerable financial analysis in an effort to identify the causes of financial losses and to determine courses of action that would produce profitable operations.

- The Company should continue to analyse all sources of revenue and all types of costs and the results of actions taken to achieve profitability.

Agreed. This analysis and other efforts will continue to be made to improve operating results and to maintain a dialogue with various Government departments, agencies and regulatory bodies as required to communicate matters adversely affecting performance but which are beyond direct control of the Company.

## OBSERVATIONS AND RECOMMENDATIONS

## COMPANY'S COMMENTS

### SENIOR FINANCIAL OFFICER

- The responsibilities of the Senior Financial Officer of Grimshaw Trucking and Distributing Ltd. should be clearly defined and documented and should include a strong functional reporting relationship to the Senior Financial Officer of the parent Company.

The responsibilities of the Senior Financial Officer of Grimshaw and the functional relationship with the Senior Financial Officer of the parent Company have been formalized.

### COMMUNICATION OF FINANCIAL POLICIES AND PROCEDURES

In recognition of the need for better communication of financial policies and procedures, an Accounting Procedures Manual and an Organization and Job Description Manual were issued in 1976.

- The Company should continue to improve the communication of financial policies and procedures with particular emphasis on:
  - documentation of overviews of the complete financial and accounting system including internal controls and procedures in the computer operations, and completion and extension of the manual to cover the payroll system, thereby including all aspects of the financial management and control system; and
  - review by the Controller and approval by the Vice-President, Finance, of all sections of operating manuals containing financial policies or with financial implications, and evidence of formal approval by the President of these various financial and related operating manuals.

Agreed. Computerization of the payroll system has been completed and documentation of the complete Financial Accounting and Control System is nearing completion.

Policies establishing the recommended review and approval functions have been implemented.

**OBSERVATIONS AND  
RECOMMENDATIONS**

**COMPANY'S COMMENTS**

**DELEGATION OF FINANCIAL SIGNING  
AUTHORITY**

- To ensure that the level to which signing authority is delegated by managers provides adequate control over expenditures, and to enable these authorities to be enforced:
  - all such delegations and amendments of signing authority should be reviewed by the Controller and Vice-President, Finance, and be approved by the President; and
  - the listing of specimen signatures should be amended to include the limits of authority delegated for each position, both in terms of dollar value and operational areas of responsibility.

Delegation of signing authority is now approved by the President.

Limits of authority have been established for each position.

**ACCOUNT VERIFICATION**

- Procedures concerning the verification of suppliers' invoices before payment should be reviewed and amended by requiring:
  - formal evidence of receipt for all purchases of goods;
  - an audit stamp to provide evidence that individual account verifications have been completed; and
  - a review by the Controller's Department of the supporting documentation to the suppliers' invoice, the purchase order and receiving report.

Agreed. System development is in progress to assure control over this area.

The audit stamp has been amended.

The necessary review procedures have been established.



## OBSERVATIONS AND RECOMMENDATIONS

## COMPANY'S COMMENTS

### MONTHLY ACCOUNT RECONCILIATIONS

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>● The assignment of responsibilities for preparing monthly account reconciliations should be reviewed and amended to provide to the extent possible independence between the person completing the reconciliation and the person maintaining the detailed accounting records.</li> </ul> | <p>Where practicable, responsibility for detailed account maintenance and reconciliation have been segregated.</p> |
| <ul style="list-style-type: none"> <li>● All monthly reconciliations should be completed, reviewed, and approved promptly, and should be signed and dated to evidence these procedures. Completion of these reconciliations should be reported monthly to the Vice-President, Finance.</li> </ul>                               | <p>All reconciliations are now signed and dated and a status reporting procedure established.</p>                  |

### ACCOUNTS RECEIVABLE

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>● Credit granting procedures should be reviewed and documented and new credit approval limits should be established to provide improved internal control.</li> </ul> | <p>Credit investigation sources and criteria have been formalized. Credit approval limits were established before start of the current shipping season.</p> |
|---|---|

### INVENTORY

At December 31, 1976, the cost of inventory held by the Company at various locations was approximately \$1,500,000, consisting of \$200,000 in fuel and \$1,300,000 in general stores.

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>● Detailed procedures should be developed and implemented to ensure:             <ul style="list-style-type: none"> <li>- independent observation of all stocktaking and documentation of independent test counts and results;</li> </ul> </li> </ul> | <p>At all locations where significant values of inventory are maintained, independent observation of stocktaking will be made and fully documented.</p> |
|--|---|

## **OBSERVATIONS AND RECOMMENDATIONS**

- all discrepancies between physical count and perpetual records are reported to the appropriate officials, enabling prompt investigation and determination of the causes as well as appropriate authorization for adjustments; and
- effective authorization of stores issues by responsibility centre managers.

## **COMPANY'S COMMENTS**

Count discrepancies are now reported to the Controller with adjustment approvals appropriately documented.

Agreed. A system of authorization will be established.

## **EMERGENCY PURCHASE PROCEDURES**

- A system should be developed to ensure that there is evidence of proper approval of all emergency purchases.

A system has been established and documented.

## **ACCURACY OF SHIPPING RECEIPTS**

- Procedures regarding the preparation, checking and processing of on-line and off-line shipping receipts should be reviewed and amended to ensure evidence that the required procedures are performed on all transactions and that there are no unauthorized changes in documents and computer file data.

Procedures have been amended to assure appropriate documentation and maintenance of system integrity.

## **PAYROLL**

- In developing policies and procedures for the new computerized payroll system, revisions should be made to the manual entry and output elements of the system to provide for:

The development of the new payroll system including manual control procedures has been completed and incorporates the recommendations set out in this section.

## OBSERVATIONS AND RECOMMENDATIONS

## COMPANY'S COMMENTS

- proper authorization of all input documents;
- checking of arithmetical calculations;
- division of duties at the field level to the extent possible; and
- signing or initialling of documents as evidence that vital control functions are performed including test checking of computer-generated information against source documents.

### INTERNAL AUDIT

- To ensure adherence to Company accounting policies and procedures and to assess objectively the adequacy of existing procedures, an internal audit function should be implemented to cover all significant areas of the financial management system.

Considering the seasonal nature and remoteness of the Company's operations, the practical benefits to be derived from the establishment of a separate and unique internal audit function will be given further consideration. Field audit procedures however have been formalized within various departments.

### AUDIT COMMITTEE

- An Audit Committee consisting of members of the Board of Directors and senior management should be established.

The formation of an Audit Committee will be recommended to the Board of Directors to facilitate their review of audit reports and recommendations.

### Grimshaw Trucking and Distributing Ltd. (Wholly-owned Subsidiary)

### COMMUNICATION OF FINANCIAL POLICY AND PROCEDURES

- Job descriptions should be prepared to include all responsibilities, duties and qualifications that management considers appropriate for each financial position.

Agreed. Job descriptions and an accounting procedures manual are presently being completed.

## **OBSERVATIONS AND RECOMMENDATIONS**

## **COMPANY'S COMMENTS**

- The Company should prepare a financial manual including a description of the procedures and financial controls for all aspects of the financial management system, as well as the responsibilities, policies, procedures and authorities of financial staff and operational staff with financial responsibilities.

As above.

## **ACCOUNTS RECEIVABLE ADJUSTMENTS**

- To prevent unauthorized adjustments to customer account balances, procedures should be developed, documented and implemented to ensure that adjustments to accounts receivable sub-ledger accounts are formally approved before being accepted for processing.

The approval of all adjustments is now evidenced on the adjustment document.

## **MAINTENANCE WORK ORDERS**

- To ensure the inclusion of all maintenance transactions in the records of the Company, work orders should be pre-numbered and accounted for.

Work orders are now pre-numbered and controlled.

## **PRO-BILL AUDITS**

- In order to ensure that all documents have been subjected to audit and have been approved, all pro-bills should bear physical evidence of such approvals before being accepted for processing.
- The Controller should have functional control over the pro-bill audit function to monitor the performance of this important control feature effectively.

The recommended approval is now evidenced on the pro-bills.

A functional relationship has been established and formal audit reports are submitted daily to the Controller.

## OBSERVATIONS AND RECOMMENDATIONS

## COMPANY'S COMMENTS

### UTILIZATION OF FIXED ASSETS

At the time of our Study, the use of line-haul tractors was being monitored. However, there were no reports on trailer use.

- A formal reporting process on use of all trailers should be developed to monitor and control the level of investment in equipment and provide a basis for equipment replacement decisions.

Formal trailer use reports are now prepared monthly.

### EXPENDITURES

- Procedures for the determination, approval and documentation of financial signing authority should be amended to ensure:
  - the delegation of signing authority is reviewed by the Controller and approved by the Vice-President at least annually; and
  - preparation of specimen signature cards that include the limits of authority delegated to each individual.
- Specific procedures performed by accounting personnel on financial documents should be identified and evidenced on the documents.

Delegation of signing authority is now approved by the Vice-President.

Limits of authority and specimen signature cards have been established for each position.

Identification of verification procedures is now evidenced on accounts payable documents.

### BUDGETARY CONTROL

Commitment to budgeted costs by operating managers is not apparent due to a lack of understanding of the budgeting process, unexplained changes in submitted budgets, a lack of a formal requirement to report and explain variances and a lack of



**OBSERVATIONS AND  
RECOMMENDATIONS**

**COMPANY'S COMMENTS**

detailed information regarding certain costs such as maintenance and claims which are allocated to cost centres.

- The procedures for preparing operating budgets and subsequent comparison with actual results should be reviewed and amended to increase the level of understanding, accountability and commitment of operating managers to their budgets. Specifically:

- detailed budget instructions should be issued to all employees involved in budget preparation to ensure that operating budgets are prepared on a consistent basis; and

- a formal variance analysis and reporting process should be implemented requiring operating managers to account to senior management for all significant variations between budgeted and actual results. Such analyses should be integrated with operating statistics, prior year's results, budget information and narrative explanations where considered necessary.

Guidelines drawn along the lines of those presently used for NTCL will be instituted.

A variance reporting system has been introduced.

**FINANCIAL ANALYSIS**

- To maximize the financial results of operations, formal financial analyses of operating methods and proposed major capital expenditures should be provided to senior management to ensure that it is aware of the financial implications of corporate decisions and to provide a basis for future decisions.

Agreed. Analysis will be formalized as recommended.



## TELEGLOBE CANADA

Observations and Recommendations as at October 1976.

Corporation's Comments as at April 1977.

### OBSERVATIONS AND RECOMMENDATIONS

### CORPORATION'S COMMENTS

Following an organizational review performed in 1972, Teleglobe Canada has substantially improved its financial management and control systems, particularly with regard to financial planning and analysis, and international agreements. Further development and refinement of its financial activities are necessary to achieve the quality and effectiveness in financial management and control required by the complex nature of the Corporation's operations.

### ORGANIZATION OF FINANCIAL MANAGEMENT

There is a need to communicate the current role and responsibilities of Finance throughout the organization.

- The official statement of the current responsibilities and mandate of the Vice-President, Finance, should be up-dated and circulated.

Programs have not been developed to ensure that financial and other corporate managers receive training appropriate for their financial management responsibilities.

- The Vice-President, Finance, in collaboration with the Director of Personnel, should develop a financial administration training plan suited to the needs of financial officers and corporate managers.

Agreed. The mandate of the major functions is presently being up-dated and a final revision will be issued shortly.

Agreed. This is a recognized need, and appropriate formal training programs are being developed.

## OBSERVATIONS AND RECOMMENDATIONS

Communication and co-ordination in the Corporation's financial functions are not fully effective, and there is also a lack of consistency.

- The Corporation should produce a comprehensive set of financial manuals documenting and communicating all aspects of financial management and control for the information of staff throughout the Corporation.

Many deficiencies have been identified in application of the Corporation's electronic data processing.

- The program for reviewing and improving the EDP function should be intensified so existing deficiencies in the EDP standards, systems, controls and documentation can be corrected as quickly as possible.

## INTERNAL CONTROL

The extent and nature of weaknesses in internal control the study identified indicate that the systems are not functioning adequately. Specific recommendations to improve internal control are listed under the headings: Revenue and Expenditure, Assets and Liabilities and Internal Audit.

- The Corporation should review its internal controls systematically and correct deficiencies so it can be assured that they are working effectively.

## CORPORATION'S COMMENTS

Agreed. The Corporation has undertaken to consolidate existing procedures and draft others that are required to produce comprehensive sets of financial manuals.

Agreed. This is indeed recognized and the review of all EDP standards, systems, and controls and documentation is being pursued vigorously to ensure overall co-ordination and control.

Agreed. This recommendation is being implemented in parallel with the overall review of accounting systems undertaken by management.

## **OBSERVATIONS AND RECOMMENDATIONS**

## **CORPORATION'S COMMENTS**

### **REVENUE AND EXPENDITURE**

#### **REVENUE**

The Corporation does not verify the completeness and accuracy of reports received from domestic and international telecommunications associates on which its revenues are partly based.

- The Corporation should keep under continual review the feasibility of acquiring equipment to monitor the volume of telephone traffic and to provide data for calculating and verifying revenue.
- The Corporation should ensure that designated senior officials of domestic telephone companies certify the completeness and accuracy of reports on outward telephone traffic, and that the opportunity exists for periodic reviews of the domestic telephone companies' systems and records involved in the compilation of these traffic figures.
- Accounting Services should compare the statements from foreign administrations on Telex and TWX volumes with the internal report produced through Teleglobe's own technical facilities and should investigate reasons for any substantial differences.
- Accounting Services should ensure that all revenues for outgoing telephone traffic are recorded and billed to foreign administrations by reconciling the data in such statements

Agreed. To date it has not been economically feasible to acquire and use this type of equipment. However, the introduction of international subscriber dialing and the installation of the Corporation's new exchanges in Montreal, Toronto and Vancouver will make it possible for Teleglobe to verify the total volume of incoming and outgoing traffic.

Agreed. Designated senior officials of domestic phone companies now certify the reports on outward telephone traffic and the opportunity exists for these periodic reviews.

Agreed. To permit a detailed verification against statements issued by foreign administrations, the Corporation is seeking to develop an arrangement for bilateral exchange of accounting data.

Agreed. This adjustment to the Corporation's accounting system will be introduced at the earliest possible date.



## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

with the data in the reports from domestic companies. Adequate documentation should be maintained as evidence that this reconciliation has been carried out.

- The Corporation should have under effective numeric control all leased circuit authorizations and should establish control totals for billings to enable Accounting Services to ensure that all leased circuits are accounted for and complete billings made.

Controls to ensure that full settlement is made for retroactive adjustment of rates need to be strengthened.

- To ensure that the subsequent adjustments apply to all affected transactions, Accounting Services should maintain a control register of transactions where a temporary rate is used in settlements with foreign administrations, or where a "no rate" is used.

Agreed. A new accounting system for leased circuits will be introduced on April 1, 1977.

Agreed. Has been implemented.

## EXPENDITURE

### CHEQUE ISSUE

Controls over cheque issue are not fully satisfactory.

- To strengthen internal control over expenditures, blank cheques should be under control of an individual not involved in the accounts payable function.

Agreed. New controls to ensure security of cheques are now in effect.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

- To guard against preparation of improper cheques, signed cheques and supporting documents should be distributed by personnel not involved in cheque preparation or in providing supporting documentation to the accounts payable system.

Agreed. New procedures to correct this are now in effect.

## PAYROLL

The Corporation's computerized and manual payroll systems are inflexible, inefficient and lack adequate systems documentation and internal controls.

- The Corporation should develop or contract for a new payroll system fully capable of meeting its payroll system needs, including appropriate segregation of duties, accounting and computer documentation, controls and procedures.
- Until the new payroll system is operational, the Corporation should undertake a thorough evaluation of all existing accounting and computer controls over payroll. Procedures should be implemented to ensure the integrity of existing systems and the segregation of duties, with compensating controls for deficiencies.

Agreed. The Corporation is currently examining various options to replace the existing payroll system.

Agreed. This recommendation is being implemented so as to ensure the integrity of existing systems.

## COSTING

The Corporation has begun a project to separate costs and to identify profit contribution by service and stream.

- The work already underway within Finance to develop cost accounting by services and subsequently by

Agreed. The Corporation is already proceeding with the implementation of this recommendation.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

streams should continue. The Corporation should, subject to cost-benefit analysis, prepare an overall plan for developing the costing system and integrating it with the Corporation's accounting system so as to provide cost information for effective corporate planning and control.

### ASSETS AND LIABILITIES

#### CAPITAL ASSETS

Policies and procedures are not complete with respect to accounting for and control of capital assets.

- Comprehensive policies, procedures and practices governing the accounting classification of capital expenditures and the control of capital assets should be prepared and should be applied with consistency.
- The Corporation should prepare and approve appropriate policies and procedures for the inventorying of capital assets and should make cyclical test checks to verify the existence, location and condition of these assets, and the accuracy and completeness of inventory records.
- The Corporation should adopt a single input system to record changes in capital assets in the general ledger and in subsidiary ledgers. Write-offs and transfers to the individual asset accounts in the subsidiary ledger should be posted monthly to avoid extensive year-end work.

Agreed. The Corporation has undertaken to develop policies and procedures with respect to accounting for and control of capital assets.

As above.

As above.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

### CASH

Procedures for handling cash receipts and bank reconciliations are not adhered to consistently.

- The Corporation should ensure adherence to written procedures for opening mail and handling receipts to control payments to the Corporation effectively.
- Instructions covering monthly bank reconciliations should be followed consistently to ensure that they are completed properly.

Agreed. Corrective action taken.

As above.

### ACCOUNTS RECEIVABLE

Management is not regularly informed of the status of outstanding receivables and payables with foreign administrations.

- Accounting Services should develop a system of regularly reporting to management upon the status of receivables and payables with foreign administrations. Items requiring management action should be highlighted.

Credit and collection policies for direct customers are not appropriately authorized.

- For direct customers, the Corporation should adopt, with appropriate authorizations, procedures for authorizing credit, including the setting

The method of accounting for and settling traffic receivables and payables is governed by international forums such as the International Telecommunications Union. These regulations prescribe the periods of time allowed administrations for settlements and these may extend to several months.

Agreed. As of January 1, 1977 the Corporation modified its accounting procedures so as to make readily available this information.

Agreed. This will be implemented.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

of credit limits, collection of customer accounts and the write-off of uncollectable accounts.

### INTERNAL AUDIT

- To improve the quality and effectiveness of internal audit, the Internal Audit Division should:
  - adopt an auditing approach that allows it to cover all the Corporation's major financial operations within a three-year cycle;
  - direct its efforts increasingly toward analytical auditing and systems evaluation;
  - audit all aspects of the electronic processing of data;
  - assess the systems used by Financial Services and the financial systems and controls used throughout the Corporation;
  - indicate, as quickly as possible, weaknesses noted in the systems audited by submitting highlight reports or précis followed by more detailed reports as necessary; and
  - conduct follow-up audits to evaluate the action taken on the reports.
- An Audit Committee comprising senior management officials should be formed to ensure the independence and objectivity of the internal audit function, a clear understanding of its mandate and scope, and action on its recommendations.

Agreed. The Corporation has undertaken to review the manner in which the mandate of the Internal Audit Division could be carried out more effectively.

Agreed. As above.



## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

### FINANCIAL PLANNING AND BUDGETARY CONTROL

A number of inherent strengths were observed in the preparation and evaluation of budgetary and forecast information. However, Corporation-wide medium and long-term plans basic for financial forecasting are not yet fully developed.

- The Corporation should ensure that all technical, operating, marketing and other plans include and display all appropriate revenues, costs and capital investments related to alternative strategies.
- The five-year financial forecast should reflect approved technical, operating and marketing strategies and be fully integrated with the Corporation-wide medium and long-term plans as they are approved.
- The Corporation should formally recognize Finance's role and responsibilities for reviewing and advising on the systems and methodology used by departments responsible for preparing annual capital and operating budgets and forecasts.

Financial objectives have not been clearly established and communicated.

- Corporate financial objectives should be developed and clearly communicated for planning, budgeting and resource allocation, and for measuring corporate achievement.

The Corporation recognizes the need to develop further its Corporation-wide medium and long-term plans basic for financial forecasting.

Agreed. Recommendations implemented.

Agreed. The advisability of this recommendation is recognized and will be implemented in the 1977-78 fiscal year.

Agreed.

Agreed. The establishment of financial objectives is recognized as necessary and will be refined in the course of 1977-78.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

The Corporation has yet to review and evaluate the performance of capital projects.

- The post-audit function to review objectives of capital projects and to compare them with actual performance, which was planned as part of the approved Capital Appropriation Process, should be implemented as quickly as possible.

Most new programs are reviewed and financial implications identified. Existing activities should be similarly reviewed.

- The Finance Department should systematically undertake financial studies of existing activities, services and facilities as well as of new programs, so that the Corporation can be continually assured of the financial viability of all of its major operations.

Agreed. The recently introduced Budget Control and Reporting System incorporates a total financial report on significant capital projects at periodic intervals as well as a post-audit at the conclusion of each project.

Agreed. This is a continuing process.

## FINANCIAL REPORTING

### INTERNAL REPORTING

Detailed monthly financial statements are distributed to managers but are not used effectively because of timing and format problems.

- The timeliness and format of the monthly budgetary control reports should be refined to make them more useful and informative. In particular:
  - significant information should be summarized to meet the needs of various levels of management;

The Corporation recognizes the need to make internal reporting more effective. Steps are being taken to review the monthly financial statements and budgetary control reports first introduced in 1974 with a view to increasing their usefulness.

## OBSERVATIONS AND RECOMMENDATIONS

## CORPORATION'S COMMENTS

- emphasis should be placed on items in the monthly budgetary reports that are under the direct control of managers. Key data should be highlighted and significant changes reported on an exception basis; and
- the monthly budgetary control reports should be extended to include useful workload and other key statistics in addition to financial data.

## REPORTING TO BOARD OF DIRECTORS

- The Corporation should ensure that the Board of Directors is aware of the total estimated costs of a project when approving individual contracts related to that project, and that it is informed of the final cost of the project when completed.

Agreed.

## EXTERNAL FINANCIAL STATEMENTS

The Corporation has made extensive improvements in its external financial statement presentation over the last two years. Further financial disclosure would enhance the information available to statement readers.

- The Corporation should continue action already underway to ensure that its external financial statements meet all relevant and current generally accepted reporting standards.

Additional improvements will be introduced as at March 31, 1977.



**APPENDIX E**  
**REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**  
**TO THE HOUSE OF COMMONS, JULY 7, 1977**





## REPORT OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS, JULY 7, 1977

### REPORT TO THE HOUSE

Thursday, July 7, 1977

The Standing Committee on Public Accounts has the honour to present its

### SECOND REPORT

(The Polysar Report)\*

1. In accordance with its Order of Reference of Tuesday, November 30, 1976, your Committee has considered the subject-matter of the letter from the Auditor General of Canada to the Prime Minister of Canada, dated March 22, 1973, tabled November 26, 1976.

SECTION	CONTENTS	PARAGRAPH NUMBER
I	Order of Reference .....	1
II	Letter from the Auditor General of Canada to the Prime Minister .....	2
III	Witnesses .....	3
IV	Summary of Conclusions .....	4-6
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VI	Chronology of Events .....	8-33
VII	Assessment of Events and Conclusions .....	34-54
VIII	Recommendations .....	55-70

\*—Polymer Corporation Limited of Sarnia became Polysar Limited in March 1973. In all references to the Corporation in this report, your Committee has used the name "Polysar" for reasons of brevity and clarity.

### I—ORDER OF REFERENCE

#### HOUSE OF COMMONS

Tuesday, November 30, 1976

*Ordered*.—That the subject-matter of the letter from the Auditor General of Canada to the Prime Minister of Canada, dated March 22, 1973, and tabled November 26, 1976, be referred to the Standing Committee on Public Accounts.

*ATTEST*:

ALISTAIR FRASER

*The Clerk of the House of Commons*

### II—LETTER FROM THE AUDITOR GENERAL OF CANADA TO THE PRIME MINISTER

2. The letter referred to in the Order of Reference is as follows:

Ottawa, Ontario  
K1A 0G6  
March 22, 1973

The Right Honourable Pierre Elliott Trudeau,  
Prime Minister of Canada,  
Ottawa.

My Dear Prime Minister,

I recently signed and transmitted the financial statements of Polymer Corporation Limited and its subsidiaries for the year ended December 31, 1972 to the Honourable Jean-Pierre Goyer, Minister of Supply and Services, and also to Mr. H. A. Hampson, Chairman of the Board of Canada Development Corporation, since this company purchased the outstanding shares of this Crown corporation last July.

The purpose of this letter is to advise you that my examination of Polymer's accounts this year disclosed existence of a serious contingent liability of indeterminable proportions arising out of certain transactions of its Swiss subsidiary, Polysar International S.A. Briefly, this arises from the subsidiary's practice of invoicing certain European customers, by agreement, at inflated prices, with the difference being remitted to the customers or their representatives in cash in Switzerland or placed in numbered Swiss bank accounts as directed. As a result of this practice, the customer is in a position to reduce his tax liabilities in his own country and avoid his country's foreign exchange control regulations, where these exist. Full particulars of the practices surrounding these rebates, payment of which aggregated approximately Sw.fr. 7,000,000 (\$1,900,000) during 1972, can be obtained from Polymer Corporation Limited.

The extent to which Polymer and its subsidiary may be contingently liable for aiding and abetting such transactions largely depends, of course, on whether the customers concerned are apprehended by their respective national authorities. The officials of Polymer and Polysar believe there is little danger of this because the practices followed are not uncommon, in fact they are fairly prevalent today in the operations of multinational corporations in many parts of the world. Nevertheless I consider it my duty to draw your attention to this contingent liability because these corporations are handling public moneys and are owned by the Government of Canada. While it may indeed be possible to defend any claims made against Polymer and Polysar from a corporate standpoint, the

fact remains that the publicity attendant on the charges which could be made against a Canadian Crown corporation and/or Canada Development Corporation could have serious and undesirable consequences.

The reason why, as the auditor of Polymer, I have not insisted on disclosure of the existence of this contingent liability is that to have done so would in my view have been contrary to the best interests of Polymer as a multinational corporation trading in world markets in a highly competitive field. However, I would be remiss in my duty if I did not draw the seriousness of this situation to your attention.

I have sent a copy of this letter to Mr. Ian C. Rush, President of Polymer Corporation Limited, and to Mr. H. A. Hampson, Chairman of the Board of Canada Development Corporation, in accordance with my undertaking to them.

Yours sincerely,

Signed: Maxwell Henderson

### III—WITNESSES

3. Your Committee heard evidence from the following witnesses whose co-operation is acknowledged:

Mr. D.C.H. Stanley, Vice-President, Wood Gundy Limited, and Director, Polysar Limited.

The Honourable J.B. Aylesworth, Former Judge of the Ontario Court of Appeals.

The Honourable C.M. Drury, P.C., M.P.

Mr. A.M. Henderson, Former Auditor General of Canada.

*From Polysar Limited:*

Mr. I.C. Rush, President and Chief Executive Officer;

Mr. W.J. Dyke, Secretary and Chief Legal Officer;

Mr. R.S. Dudley, Group Vice-President, Rubber and Latex, formerly President, Polysar International S.A.;

Mr. G. Bracewell, Vice-President, Corporate Projects;

Mr. M. Erlindson, Treasurer;

Mr. J.R. Willson, Assistant Treasurer.

*From Polysar Europa, S.A.:*

Mr. N.B. Roberts, Marketing Manager, formerly General Manager, Polysar International S.A.

*From the Law Branch, House of Commons:*

Mr. J.P.J. Maingot, Parliamentary Counsel and Law Clerk.

*From the Auditor General's Office:*

Mr. J.J. Macdonell, Auditor General of Canada;

Mr. H.E. Hayes, Director General, Audit Operations;

Mr. J.R. Douglas, Former Assistant Auditor General;

Mr. W.A. Bradshaw, Assistant Auditor General;

Mr. N.G. Ross, Special Adviser.

*From the Canada Development Corporation:*

Mr. H.A. Hampson, President, and Director, Polysar Limited.

*From the Treasury Board:*

Mr. S. Mensforth, Deputy Secretary, Financial Administration Branch.

*From Peat, Marwick, Mitchell & Co. (Canada):*

Mr. G.H. Cowperthwaite, Senior Partner;

Mr. K.B. Kirkwood, Administrative Partner.

*From Peat, Marwick, Mitchell & Co. (Europe):*

Mr. H.N. Matthews, Partner.

### IV—SUMMARY OF CONCLUSIONS

4. Your Committee concludes that most persons having any connection with or knowledge of these rebate practices should be criticized:

(a) The management of Polysar International S.A. (PISA), for engaging, on behalf of a Canadian Crown corporation, with Canadian funds, in improper business practices which obviously were designed to assist in the contravention of the laws of the country of the customer.

(b) The management of the Polysar Group in Canada and Europe, who must have known of the purpose of these transactions, if not their details, and who should not have countenanced their continuation until November 1976.

(c) The Boards of Directors of PISA, Polysar (Europa), and Polysar (Canada), and the Audit Committee of Polysar (Canada) who did nothing to stop these practices when they knew, or should have known about them.

(d) The private firm of auditors who were joint auditors prior to 1973 and sole auditors since that time, for not fully bringing the practices to the attention of the sole shareholder (the Canadian Government) or the annual meetings of the companies concerned, and not utilizing the special legislation available to them so that Parliament would learn of these practices. Since 1973 the sole auditors should at least have continued to draw the attention of successive audit committees to these practices.

(e) The former Auditor General, for not disclosing these practices to Parliament, or ensuring that his successor's attention was drawn to them for inclusion in the Auditor General's 1973 Report.

(f) The former President of the Treasury Board, for not adequately investigating these practices and not reporting back to the Prime Minister in 1973 when requested to do so by him.

5. Your Committee notes with concern that, although rectifying procedures have been belatedly instituted, no person in this whole chain of negligence has been disciplined to date; no staff has been discharged or even reprimanded; management and senior management have been promoted or their responsibilities increased; no changes, because of these events, have taken place in either the composition or procedures of the boards of directors or audit committee; and the same firm of auditors is still retained.

6. Your Committee has called witnesses which it deemed appropriate and it received all the documentation of which it had knowledge. In the event that there is any subsequent development in this matter, Parliament may wish to give a further reference to your Committee.

#### V—SUMMARY OF RECOMMENDATIONS

7. Your Committee recommends that:

(a) The Government monitor compliance with its guidelines on commercial practices of Crown corporations, impose penalties for non-compliance, and disclose the results to Parliament.

(b) The Government issue guidelines on the operation of foreign subsidiaries of Crown corporations to ensure that their practices and records come under parliamentary scrutiny.

(c) The responsible ministers be adequately represented on boards of directors and audit committees of Crown corporations.

(d) The board of directors of each Crown corporation form an audit committee of directors at least a majority of whom are not otherwise connected with the Crown corporation; that such committees meet with the auditors of the corporation at least annually; and that the Auditor General have the right to attend or be represented at all such meetings.

(e) Each Crown corporation establish standards of conduct and practice and ensure compliance throughout the corporate group.

(f) Auditors of Crown corporations adopt consistent standards of audit reporting to ministers and to Parliament.

(g) Auditors of Crown corporations furnish the Auditor General with copies of their reports and audited financial statements, provide him with other information he deems necessary, and consult with him on a regular basis.

(h) The Auditor General have access to corporate records and the right to conduct investigations.

(i) The Auditor General develop a manual for the consistent reporting by auditors of Crown corporations.

(j) The Auditor General include in his Annual Report a summary of all matters reported under Section 77 (1) of the *Financial Administration Act*.

(k) The Government issue guidelines respecting the objectives of foreign operations of Crown corporations.

(l) The Government ensure that the right of access to information is afforded to Parliament and the Government by those Crown corporations that operate in foreign countries in order to protect the interests of the ultimate shareholders, the Canadian taxpayers, and to permit public and parliamentary scrutiny of their corporate interests.

#### VI—CHRONOLOGY OF EVENTS

8. On March 22, 1973, the former Auditor General, Mr. A. M. Henderson, wrote to the Prime Minister about a serious contingent liability arising out of certain transactions of Polysar International S.A. (PISA), which had come to his attention in the course of the audit of the accounts of Polysar Limited (Polysar) and its subsidiaries for the year ended December 31, 1972. This letter was written following an audit committee meeting of the board of directors of Polysar on February 21, 1973 and after several discussions on these transactions between Mr. Henderson and Peat, Marwick, Mitchell & Co. (PMM & Co.), joint auditors of Polysar, and members of the board of directors and senior management of Polysar and its Swiss subsidiary, PISA.

9. As described in the letter of Mr. Henderson, the transactions related to PISA's practice of billing certain European customers, by agreement, at inflated prices with the difference in the form of rebates or marketing allowances, which aggregated approximately \$1.9 million in 1972 alone, being remitted to customers or their representatives in cash in Switzerland or deposited in numbered Swiss bank accounts as directed by the customers. As a result of this practice, he stated that customers were in the position to reduce their tax liability in their own country and to avoid their country's foreign exchange control regulations.

10. Testimony indicated that the practices in question had existed in PISA prior to 1972, but it was only in that year, that PMM & Co. expressed serious concern in the course of their audit of the PISA accounts. The findings of the auditors were fully discussed at meetings in Fribourg, Switzerland in December 1972, involving Messrs. Bracewell and Erlindson of Polysar, Messrs. Verbruggen and Bradford of PISA, and Messrs. Kirkwood and Matthews of PMM & Co. It was decided that senior management should be requested to furnish the auditors with a formal letter—a Letter of Representation—confirming management's awareness of these practices, that they were not illegal, and that there was no contingent liability.

11. On February 1, 1973, Mr. Matthews of PMM & Co., Zurich, sent a memorandum to Mr. J. D. Collins, professional



practices partner of PMM & Co. in Paris with a copy to Mr. Kirkwood in Toronto giving a full explanation of the practices in question and indicating some possible undesirable consequences including prosecutions. It was a copy of this memorandum that first alerted Mr. Henderson to the situation.

12. On February 9, 1973, Mr. Kirkwood wrote to Mr. Matthews to confirm the final form of the "Representation Letter" and to obtain a written legal opinion from Dr. Homburger, the company's legal counsel in Zurich, as to PISA's position with regard to Swiss law. Dr. Homburger was and is a director of the company and a partner of the Chicago-based international law firm of Baker and McKenzie. The legal opinion was sent to Polysar's head office in Sarnia on February 14, 1973. The "Representation Letter" was signed on February 21, 1973, by PISA officials, Messrs. Roberts, Bradford, and Mahler, and a copy was sent to Mr. R. S. Dudley, Group Vice-President of Polysar.

13. On February 13, 1973, Mr. G. H. Cowperthwaite, the senior Canadian partner of PMM & Co., Toronto, telephoned Mr. Henderson to discuss the question of the marketing allowances. Mr. Henderson testified that the conversation indicated that under certain conditions serious contingent liabilities could arise if PISA were found to have infringed on the exchange control or taxing statutes of countries in which the customers were domiciled. Mr. Henderson therefore concluded that this required special consideration by the joint auditors.

14. On February 21, 1973, the joint auditors met in Toronto to again discuss the questionable practices. Mr. Henderson repeated his concern. Subsequent to this meeting Mr. Cowperthwaite telephoned Mr. I. C. Rush, President of Polysar, and Mr. H. A. Hampson, Chairman of Canada Development Corporation (CDC), the parent company of Polysar, to inform them that this matter would be raised by the joint auditors at the audit committee meeting of Polysar that evening.

15. On the evening of February 21, 1973, the formal meeting of the audit committee of Polysar was held in Toronto and was attended by Messrs. Hampson, McGregor, Rush and Todgham, Directors of Polysar; Messrs. Cowperthwaite and Kirkwood of Peat, Marwick, Mitchell & Co.; Mr. Henderson, the former Auditor General; and Mr. Dyke of Polysar. The evidence indicated serious contradictions as to the emphasis and detail relating to the rebate practices. Management's testimony stated that the emphasis of the discussion at the meeting was on the legal implications of the contingent liability but both Mr. Henderson and Mr. Cowperthwaite stated that the details of the rebate practices and questions related to them were fully explained. Mr. Henderson advised the audit committee that he was considering communicating directly with the Prime Minister about the questionable practices which in his opinion should be investigated without delay.

16. On February 22, 1973, the audit committee reported on the rebate practices to the board of directors of Polysar which met in Toronto.

17. On March 1, 1973, the Chicago office of Baker & McKenzie issued a legal opinion which stated that they were not aware of any instance in which a foreign government has questioned situations analogous to the rebate practices followed by PISA.

18. On March 7, 1973, the consolidated accounts of Polysar and its subsidiaries for the year ended December 31, 1972, were signed and were accompanied by the unqualified report of the joint auditors.

19. On March 22, 1973, Mr. Henderson wrote to the Prime Minister and sent copies of his letter to Messrs. Hampson, Rush and Cowperthwaite. This took place on the day prior to Mr. Henderson's official retirement.

20. On March 26, 1973, the Prime Minister's office acknowledged receipt of Mr. Henderson's letter. On March 27, 1973, the Prime Minister wrote to the Honourable C. M. Drury, President of the Treasury Board, requesting him to take immediate action.

21. On March 29, 1973, Mr. C. M. Drury telephoned Mr. Morrison, Executive Vice-President of CDC, who undertook to have Mr. Hampson justify in writing the future policy of Polysar in this regard. A few days later, Mr. Hampson telephoned Mr. Drury and it was concluded between them that the issue had been settled.

22. On March 29, 1973, at the shareholders' meeting of Polysar Limited, PMM & Co. was appointed sole auditor of the company. The Auditor General was thus relieved of his responsibilities as joint auditor on the grounds that Polysar had ceased to be a Crown corporation.

23. On June 1, 1973, the annual general meeting and two board meetings of PISA were held in Fribourg. Mr. Matthews of PMM & Co. attended these meetings but made no reference at any of them to either the questionable rebate practices of PISA or the "Representation Letter".

24. On October 25, 1973, Mr. Henderson, now retired, informed Mr. Rush that he had received the financial statements of certain subsidiaries of Polysar for the year ended December 31, 1972, from the Office of the Auditor General. He advised Mr. Rush that he was unwilling to sign these accounts because he had not received a response to his letter to the Prime Minister. He also related this unwillingness to the fact that the Auditor General had not been re-appointed as joint auditor of Polysar.

25. On November 8, 1973, Mr. Rush replied that PISA continued to observe the instructions given by certain customers relative to the disposition of funds payable to them, since this remained a common competitive practice in Switzerland. With respect to the other matter, Mr. Rush stated that the shareholders' decision not to re-appoint the Auditor General as joint auditor was consistent with Polysar's new ownership status.

26. At the end of November 1976, Mr. Henderson's letter to the Prime Minister was published in some Canadian newspapers. Mr. Rush and certain of his executives met on November 28, 1976, to consider what steps should be taken. It was



decided to review these practices within PISA and on November 30, 1976, Mr. Critchley and Mr. Dudley, two Vice-Presidents of Polysar, along with Mr. Buchanan of PMM & Co., Toronto, met with the management of PISA in Fribourg to conduct a preliminary inquiry.

27. On December 3, 1976, Mr. Critchley presented a preliminary verbal report to the Polysar board of directors who then established a special Committee of Inquiry, comprising the Honourable John B. Aylesworth, former judge of the Ontario Court of Appeals, and Mr. David C. H. Stanley, a director of Polysar Limited.

28. On December 11, 1976, the Committee of Inquiry commenced its investigation which took place in Switzerland and Canada.

29. On January 31, 1977, the Committee presented its report to the board of directors of Polysar in which they found that: (1) the great bulk of PISA's business was conducted in a manner which, in the authors' view, could not provide any ground whatever for either legal or moral criticism; (2) there was nothing to indicate any actual or attempted bribery on the part of any employee involved in negotiations with or sales to customers in a highly competitive market; and (3) objectionable or questionable practices existed during the period from January 1970 to the end of September 1976 in respect of sales to 13 customers and 14 distributors at one time or another. The report suggested that these practices may have made possible the violating of foreign tax exchange control regulations, the evading of taxes, and the defrauding of minority shareholders. These practices involved rebates or similar payments to such customers and distributors equivalent to some \$4.8 million, peaking in the highest single year at slightly in excess of \$1.6 million.

30. In concluding their report, Messrs. Aylesworth and Stanley: (1) recommended the discontinuation of such questionable practices; (2) recommended that PISA be provided with a top ranking financial officer to prescribe corporate policy in invoicing and payment practices; (3) recommended that the ultimate sales authority in PISA be clearly defined and that proper business standards be adopted throughout the corporation; and (4) asked why no action had been taken in respect of the questionable transactions up to the time of their investigation. They found it difficult to understand why Polysar's continuing auditors, PMM & Co., had failed to raise the matter of the questionable transactions at least once more at the time of their subsequent annual audits.

31. On January 31, 1977, the board of directors of Polysar agreed to accept all the recommendations of the Aylesworth-Stanley report and to implement them immediately.

32. On February 7, 1977, the Polysar board adopted "Standards of Business Conduct" which were issued to 95 senior personnel of the Polysar group throughout the world. The questionable rebate practices were discontinued on February 15, 1977.

33. On March 1, 1977, the Standing Committee on Public Accounts held its first meeting to enquire into this matter and twenty-eight meetings have been held since that date.

## VII—ASSESSMENT OF EVENTS AND CONCLUSIONS

34. The subject-matter of our terms of reference indicated that your Committee should initially seek to answer the following questions:

1. Was there in fact a contingent liability and, if so, what were the nature and circumstances surrounding it?
2. What was the extent of the knowledge of senior management of Polysar respecting these practices and what subsequent action was taken?
3. Should a Crown corporation consciously engage in practices which could aid and abet its customers to (a) evade taxes, (b) violate foreign exchange regulations, and (c) defraud minority shareholders?
4. Were the actions of the boards of directors of Polysar and PISA and the audit committee appropriate after the questionable practices were raised by the joint auditors?
5. Did the Government react adequately when notified of these practices?
6. Did the auditors adequately discharge their responsibilities under the *Financial Administration Act (FAA)* and their continuing responsibilities in the light of generally accepted audit reporting standards?

### *Was there a Contingent Liability?*

35. A contingent liability is a potential obligation which may arise from past or present circumstances. There was extensive concern during the course of the audits of Polysar and PISA relating to the questionable practices followed by the Corporation in arranging rebates to special customers involving in some cases the practice of inflating invoice prices. This concern originated during the PMM & Co. audit in Europe and remained a serious concern right up to and including the Polysar audit committee meeting of February 21, 1973.

36. The concern relating to the contingent liability was alleviated when certain legal opinions were received which suggested that no such liability existed. As well, a legal opinion was received by Polysar which stated that these transactions did not violate any provisions of Swiss law. The legal opinions together with the special "Representation Letter" satisfied PMM & Co. that no contingent liability existed. However, your Committee noted that the "Representation Letter" had attached to it a summary of the details of the transactions indicating the name and address of the customer, the total amount paid, and the name and address of the payee.

37. Mr. Henderson was not satisfied. He concluded that while no legal liability might exist, the publicity attendant on the transactions being publicly disclosed could have serious and undesirable consequences.

38. Your Committee feels that the question of whether or not there was or is a contingent liability is not the key issue: this was merely a vehicle which was used to bring these practices to the attention of management. The procedures and

practices themselves and their continuance are, in your Committee's view, the main matter to which Mr. Henderson was addressing himself in his letter to the Prime Minister. This appeared to be the interpretation of the Prime Minister when he referred to the "obvious possibilities for embarrassment" in his letter to Mr. Drury.

*Did Senior Management of Polysar know of the Questionable Practices?*

39. The questionable practices of PISA referred to in Mr. Henderson's letter had existed for some time before 1972. It is clear from the testimony of witnesses before your Committee that the management of Polysar were aware of the practices initiated by the employees of PISA, but had done nothing either to stop them or to satisfy themselves that it was proper for PISA to facilitate these types of transactions. The management of Polysar deny that they were aware of the details of the transactions. In the opinion of your Committee, this testimony does not exonerate them since they should have and could have made themselves fully familiar with such details.

40. Although Mr. Henderson's letter described both the practices and their effects, the management of Polysar did not investigate or stop them until after Mr. Henderson's letter became public in November 1976.

41. Your Committee concludes that management should have acted on the warnings of the auditors. The fact that the questionable practices were continued for several years indicates that management accepted them.

*Should a Crown Corporation engage in such Practices?*

42. The purpose of a Crown corporation presumably is to free its operations from the strictures of a government's departmental operations, and, if it is a commercial operation, to permit it the flexibility of operating in a competitive market. One reason given for these questionable transactions of PISA was that these were normal business practices of the day. Your Committee strongly feels that a Crown corporation being an emanation of the Crown is a vehicle for public policy; and that whether or not the competition engages in questionable practices is irrelevant: no such practices should be utilized by any Crown corporation.

*Were the Subsequent Actions by the Directors of Polysar appropriate?*

43. The position expressed by company directors, appearing before your Committee, was that neither joint auditor sufficiently impressed them with the importance of the issue; and that it was the contingent liability, not the practices themselves, that they thought was being questioned.

44. Your Committee has concluded that some blame for this lack of awareness on the part of the directors must be attributed to PMM & Co., since members of the Polysar audit

committee were advised by them that these practices were normal in Switzerland, even though they admitted that they would not be condoned in Canada. Although these practices continued until the end of 1976, the auditors failed to raise the issue again before the audit committee.

45. The testimony of some directors indicated that they perceived Polysar's mandate from the then shareholder (the Government as represented by the responsible Minister), to be no different from that of a company in the private sector. The fact that, until recently, the Government had not set forth the standards of business practices it expected of Crown corporations operating abroad, no doubt supported this perception.

46. Nevertheless, despite these contributing circumstances, the directors, taking into account their freedom to direct the affairs of the company, must accept responsibility for the initiation and continuation of these practices. The "Standards of Business Conduct" eventually established by them should have been issued to company personnel on the inception of international operations. The failure to investigate the practices questioned by the auditors and to give such guidance earlier was a dereliction of their responsibilities.

*Did the Government react adequately?*

47. Your Committee is concerned about the nature of the Government's response to Mr. Henderson's letter which fully disclosed the questionable nature of the practices. The Prime Minister asked the then President of the Treasury Board (Mr. Drury) to investigate the matter and report back to him. In the opinion of your Committee, Mr. Drury's investigation was inadequate and he testified that he did not report back to the Prime Minister. Furthermore, there was no reply to Mr. Henderson's letter.

48. The guidelines on business practices reported by the President of the Treasury Board to the House of Commons on December 16, 1976, are commendable, and the Government should take appropriate action to ensure compliance with them.

*Did the Auditors discharge their Responsibilities adequately?*

49. Section 77 (1) of the *Financial Administration Act* requires the auditor of a Crown corporation to:

"...call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament."

Although this section has not been used recently, the actions of both joint auditors must be judged by the fact that they did not use this means of reporting. If this matter had been reported under Section 77 (1), it is probable that the practices would have been stopped shortly thereafter in the same manner as when the Aylesworth-Stanley report was made public.



50. PMM & Co. did not appear to recognize any differences between their reporting responsibilities under Section 77 (1) and those normally required of shareholders' auditors in the private sector, except for noting that the matter would be less sensitive in future years when Polysar was not a Crown corporation. PMM & Co. has consistently taken the position that, by raising the matter with management, by obtaining a special "Representation Letter", and by bringing the matter to the attention of the audit committee of the board of directors, their responsibilities were fully discharged. Your Committee does not agree with this position.

51. Some witnesses criticized Mr. Henderson for signing an unqualified audit report while at the same time reporting on the "serious contingent liability" to the Prime Minister. Your Committee has already indicated that the contingent liability was not the key issue. Auditors have two separate reporting responsibilities under Section 77 (1) of the aforementioned Act—first, in respect of their opinion on financial statements and second, on other matters that in their opinion should be brought to the attention of Parliament. Accordingly, your Committee sees no inconsistency in Mr. Henderson's decision to sign an unqualified audit report, but believes that the questionable practices should have been reported to Parliament rather than to the Prime Minister alone.

52. Mr. Henderson explained his decision not to report this matter to Parliament by stating that he felt it would be contrary to the best interests of Polysar. Your Committee disagrees with Mr. Henderson's decision since it believes that Parliament's right to be informed of such matters should be paramount.

53. At the shareholders' meeting on March 29, 1973, the Auditor General was removed as a joint auditor of Polysar. Witnesses stated that this was because the company ceased to be a Crown corporation once it was acquired by the Canada Development Corporation, and that it would be incongruous to have the Auditor General auditor of a subsidiary when he was not auditor of the parent company. Your Committee questions the propriety, if not the legality, of the removal of the Auditor General so summarily, especially when the statute authorizing his initial appointment (*The Department of Munitions and Supply Act*) had not been amended and Schedule D of the *Financial Administration Act* showed, and still shows, Polysar to be a Crown corporation. Your Committee notes that an attempt in the 1973 Estimates to change the status of Polysar was rejected by the Speaker of the House of Commons as being improper.

54. It is important to remember that by March 23, 1973, Mr. Henderson was retiring as Auditor General. These matters were obviously of prime concern to him in that office. Apparently little effort was made to bring the circumstances and his concerns to the attention of his successor.

#### VIII—RECOMMENDATIONS

55. Many additional measures are required to ensure that appropriate standards of commercial practices are followed by

Crown corporations and other corporations or agencies owned or controlled by the Government, and to ensure that there is full and appropriate reporting by the auditors of such corporations to the responsible ministers, to the Auditor General, and to Parliament.

#### *Standards of Commercial Practices*

56. Your Committee welcomes the Government's new policy guidelines concerning the commercial practices of Crown corporations and recommends that the Government take the action necessary to monitor and ensure compliance. Your Committee believes there should be some penalty for non-compliance with the guidelines and some form of public or parliamentary disclosure of the results of the monitoring. Initially this might be accomplished by an annual declaration made by board members and officers of each Crown corporation or subsidiary, but as a long term goal, reliance on the agencies themselves to indicate whether or not they are complying with government policy is not acceptable.

57. Your Committee recommends that the Government issue policy guidelines governing the operation of foreign subsidiaries of Crown corporations to ensure that the records and practices of such subsidiaries will be available for parliamentary scrutiny. Non-compliance by subsidiaries of Crown corporations should be treated in the same way as the non-compliance of Crown corporations themselves.

58. Your Committee recommends that:

1. The responsible ministers be adequately represented on boards of directors of Crown corporations;
2. The board of directors of each Crown corporation should form an audit committee of directors at least a majority of whom are not otherwise connected with the Crown corporation;
3. Audit committees should include a representative of the responsible minister;
4. Audit committees should meet with the auditors of the corporations at least on an annual basis; and
5. The Auditor General, whether or not he is the auditor, should have notice of all audit committee meetings and have the right to attend or be represented at all such meetings.

59. Your Committee recommends that the boards of directors of all Crown corporations establish comprehensive standards of commercial conduct and practice, in accordance with the stated government policy guidelines, and adequate procedures be established to ensure compliance with such standards throughout the operations of their respective corporate groups.

60. The foregoing recommendations of your Committee are intended to apply not only to Crown corporations but also to any corporation or agency or sizeable operation owned or effectively controlled by the Government.

### *Standards of Audit Reporting*

61. Your Committee recommends that consistent and appropriate standards of audit reporting to the responsible minister and to Parliament be adopted by all auditors of Crown corporations. The existing reporting standards are out-dated and inadequate and too closely oriented with the commercial and private sector. Audit reporting standards to be utilized in government should be restated in governmental terms rather than in business terms because of the nature of government operations. Such minimum standards should reflect the provisions contained in Section 77 (1) of the *Financial Administration Act* and should be incorporated in the Government's new policy guidelines concerning the commercial practices of Crown corporations.

62. Your Committee recommends that where the Auditor General is not the auditor of a Crown corporation, the auditors should be required to review their audit findings at least annually with the Auditor General and provide him with copies of their reports and recommendations to management together with a copy of the audited financial statements. Your Committee believes that the Auditor General should have access to the auditors' working papers, including letters of representation and should be empowered to obtain such additional information as he deems necessary.

63. Your Committee further recommends that the Auditor General should have unrestricted access to the records of those Crown corporations where he is not the auditor, and have the right to conduct such investigations as he deems necessary to discharge his responsibilities to Parliament as auditor of the Accounts of Canada.

64. It should be emphasized to auditors of Crown corporations that their responsibilities include more effective audit reporting and better utilization of the statutory provisions in Sections 77 and 78 of the *Financial Administration Act*. Your Committee recommends that all auditors consult on a regular basis with the Auditor General to ensure a proper understanding of government policy and guidelines with respect to Crown corporations. Your Committee also recommends that the Auditor General develop a manual for the consistent reporting by the auditors on the application of these guidelines.

65. Your Committee recommends that the Auditor General include in his Annual Report to the House of Commons a summary of all matters to be drawn to the attention of Parliament, reported under Section 77 (1) of the *Financial Administration Act*, by all auditors of Crown corporations together with all matters arising from his investigations which in his opinion should be reported.

66. Your Committee believes, however, that it should remain the responsibility of the auditors of Crown corporations

to report, under the provisions of Sections 77 and 78 of the *Financial Administration Act*, irrespective of the reporting by the Auditor General in his Annual Report to the House of Commons.

### *Other Recommendations*

67. Your Committee recommends that the Government issue guidelines identifying the objectives of foreign subsidiaries of Crown corporations. Questioning revealed that some inter-company practices of the Polysar group may have been designed to reduce Canadian corporation taxes. Your Committee believes that the Government guidelines should among other things refer specifically to inter-company pricing policies; the extent to which foreign tax liabilities should be incurred at the expense of Canadian taxes; the requirement for periodic reporting of these matters to the Government; and the requirement for Government approval of any new Crown corporation foreign subsidiary.

68. Your Committee recommends that undistributed profits and assets held by individual subsidiaries abroad be clearly identified in the annual report of the parent Crown corporation.

69. Your Committee is deeply concerned over the apparent inability of the officers of Polysar to provide information with respect to your Committee's enquiries into the operations of PISA because the laws of a foreign country restrict public disclosure of the business transactions of that subsidiary. Your Committee recommends that where Crown corporations have foreign operations, the Government and Parliament should ensure that both have the right of access to information about its operations in those foreign countries in order to protect the interests of the ultimate shareholders, the Canadian taxpayers. To this end, it may be necessary for Canada to negotiate, at treaty level, with the foreign countries concerned, or as an immediate alternative, to prevent any Crown corporation from establishing or maintaining subsidiaries in foreign jurisdictions which prevent public and parliamentary scrutiny of those subsidiaries, their business records, and their corporate practices.

70. The Government has stated its intention to introduce new legislation with respect to Crown corporations. Your Committee recommends that the Government consider the advisability of clearly defining in legislation the following: (a) all agencies of the Crown including those corporations substantially owned or effectively controlled by the Crown; (b) the responsibilities of these agencies; (c) the criteria for the appointment of auditors of these agencies; and (d) the duties of these auditors.

71. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 38 and 39*) is tabled.

Respectfully submitted,

ALLAN LAWRENCE

*Chairman*

**APPENDIX F**  
**REPORT OF THE TREASURY BOARD SECRETARIAT**  
**TO THE STANDING COMMITTEE ON PUBLIC**  
**ACCOUNTS, MARCH 31, 1977**





REVIEW OF TREASURY BOARD ACTIONS ON REPORTED DEFICIENCIES  
IN FINANCIAL MANAGEMENT AND CONTROL PRACTICES

March 31, 1977

AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

10.6 A comprehensive study of the form of the Estimates and the information submitted by each department and agency in support of appropriation requests, is required to determine changes needed to achieve better disclosure, as well as better control by Parliament and by the government of departmental spending in relation to the appropriations granted. (2.35)

TREASURY BOARD RESPONSE  
June 21, 1976

The President of the Treasury Board has agreed to study the form and content of the Estimates, the main purpose being to determine what should be done to improve the information flow to members of Parliament.

T.B. ACTION REPORTED  
To March 31, 1977

At the request of the Chairman of the Standing Committee on Public Accounts, the Treasury Board Secretariat has been preparing the draft of a "Guide to the Estimates and Public Accounts" which is to be discussed by that Committee. It has been agreed that the purpose of this guide will be to provide parliamentarians not only with a clear exposition of the manner in which the Estimates and the Public Accounts are now presented, but also with an understanding of the way in which their format has evolved over the years.

The Treasury Board is proceeding on the assumption that the essential starting point for a study that might lead to changes in the form of the Estimates is intensive individual discussions with a number of Members of Parliament.

The Guide will also identify deficiencies in the present formats, and explain how these may be eliminated or alleviated through implementation of the recommendations of the Study of Accounts of Canada and be a starting point for identifying other deficiencies which members may wish to address. It is felt that the Guide will thus meet the instructions of the Public Accounts Committee to "prepare a paper on a two-part basis - the first part identifying items that could be embodied at an early date without undue difficulty and the second part introducing changes of a more comprehensive and complex nature." (PAC Minutes of Proceedings 1 April 1976 p.53.3).

Members of the Public Accounts Committee would probably wish to defer their involvement in any study which could lead to changes in the present form of the Estimates or the Public Accounts until such time as

AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKEN

The recommendation proposed a study for two purposes:

- to achieve better disclosure of the proposed uses of funds requested; and
- to provide a better basis for parliamentary and governmental control of departmental spending

While the action proposed by Treasury Board may contribute to the first purpose, it is less clear how it contributes to the latter until practical proposals are put forward.

The value of the proposed "Guide to the Estimates and Public Accounts" cannot be evaluated at this time since it has yet to be exposed to my Office.

10.7 A single central agency should be responsible for the form of the Estimates and Public Accounts so that a more adequate and consistent accounting can be rendered to Parliament. (2.46)

Responsibility for the form of the Public Accounts and, ultimately, the Estimates will vest in the Financial Administration Branch, Treasury Board Secretariat. The relevant sections of the Financial Administration Act will be amended by replacing references to the Minister of Finance with references to the President of the Treasury Board. Responsibility for the form of the Public Accounts will vest in the Treasury Board Secretariat where responsibility for the form of the Estimates is already vested.

According to the Treasury Board response legal responsibility for the Public Accounts will be assigned to the President of the Treasury Board by changing references to the Minister of Finance with references to the President of the Treasury Board. In practice, the Department of Supply and Services, which actually prepares the Public Accounts is also involved in determining the form. The change in legal responsibility will be effective only if the officer responsible for advising the President of the Treasury Board on the Public Accounts at least shares responsibility for recommending how the Estimates might be changed to improve expenditure control and financial reporting in departments and agencies.

10.9 There is a need for government and departmental objectives, and program priorities, detailed enough to provide effective guidance to be communicated formally and on a timely basis to managers responsible for the various aspects of financial planning. (3.18)

- (a) Governmental objectives and program priorities are formally communicated in the speech from the Throne, white papers and cabinet decisions all of which are available to the deputy ministers concerned.
- (b) The communication of departmental objectives and policies is the subject of policy statements contained in the Program Forecast and Estimates Manual and the Guide on Financial Administration. Departmental compliance with this policy is the subject of continuing evaluation.

The most effective single means of modifying the general requirements of the Program Forecast has been found to be the individual requests and suggestions, oral and written, made by senior officers of the Program Branch to the senior officers of departments. In the last two years, Directors of the Branch have been instructed to meet each deputy head early in the period normally given over to the preparation of the Program Forecast to discuss priorities, the expected degree of restraint on expenditures, special information requirements and the like.

The policies in the Program Forecast and Estimates Manual and the Guide on Financial Administration were in existence when the Financial Management and Control Study took place, but managers responsible for various aspects of financial planning did not generally have available explicit statements of objectives and priorities that they could use. The action taken by Treasury Board is appropriate but it is not the type of formal communication that is necessary to ensure a co-ordinated and unambiguous application of the government's priorities, and objectives.

# Treasury Board Report to the Public Accounts Committee, March 31, 1977

## AUDITOR GENERAL RECOMMENDATION (1975 Report)

10.10 Senior management of departments and agencies should prepare Program Forecasts centrally with other levels of management providing information for planning, primarily through continuous dialogue with headquarters. (3.36)

## TREASURY BOARD RESPONSE June 21, 1976

This recommendation is consistent with existing Treasury Board policy. This policy will be reaffirmed and departmental compliance is the subject of continuing evaluation.

10.11 Program Forecast information requirements should be studied to make certain that they contain only essential detail and specify requirements which recognize the fundamentally different natures of the various departments and agencies and the diversified programs they administer. (3.40)

It is the policy of the Treasury Board Secretariat to continually review the data required to be submitted in Program Forecasts and to delete material not required for the assessment of specific program proposals. The differing natures of departments and agencies are recognized.

## T.B. ACTION REPORTED To March 31, 1977

The Treasury Board policy in this regard continues to be enforced at every opportunity. The present climate of restraint, which imposes even greater than usual pressure to choose between priorities, has brought about a greater concentration by headquarters management on the Program Forecast, making it more the "top-down" exercise the Board has always encouraged.

The general instructions for Program Forecast are reviewed annually by the Treasury Board Secretariat and they are, whenever required, "tailored" to the particular circumstances of individual departments.

This approach was pursued in the 1977-78 Program Forecast exercise, in that the adaptation of general instructions to specialized requirements for individual departments with unique programs was developed further.

## AUDITOR GENERAL COMMENTS ON T.B. RESPONSE AND ACTION TAKEN

Departmental practices will need to be examined before it can be determined whether past deficiencies have been remedied.

Instructions to departments will need to be reviewed to see that they provide for the diversified requirements of departments and agencies.

10.12 All programs should be reviewed in detail on a cyclical basis. Reviews should be conducted by departments, with appropriate central agency participation to provide an adequate basis for them to perform their resource allocating and budget monitoring responsibilities. (3.46)

Departments have been instructed to develop and operate systems which disclose program efficiency and effectiveness. Treasury Board has assisted departments and will evaluate these systems to ensure that data produced may be reliably used in the resource allocation and budgetary processes.

On further reflection the Secretariat would not accept that all programs should be reviewed "on a cyclical basis" if this implies that each should be reviewed say every three years or some like common interval. Some programs are operated under five-year or longer agreements. Some are initiated experimentally and are required to be reviewed after one or two years. Some are reviewed every year. The particular circumstances of each program dictates the frequency of review. The annual Program Review of Program Forecasts leads to changes each year, either initiated by departments and agencies each year or required by Treasury Board or Cabinet. The social security review of a few years ago encompassed all social programs and therefore in itself covered a major portion of all government expenditures. The recently announced

This recommendation was intended to ensure that Treasury Board and those reviewing Estimates in departments, while necessarily concentrating their attention on new programs or changes to existing programs, would also periodically review ongoing programs. It was never contemplated that the cycle should be the same for all programs. The Treasury Board action refers to a number of reviews, many of which are not new. The actions referred to are not part of an overall review plan as proposed in the recommendation. It would be necessary to examine them in detail to determine whether they were, in fact, zero-based reviews of the nature recommended in paragraph 3.45 of the 1975 Report before comments can be made on the action taken.

AUDITOR GENERAL RECOMMENDATION  
(1975 Report)TREASURY BOARD RESPONSE  
June 21, 1976T.B. ACTION REPORTED  
To March 31, 1977AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKEN

financing formula for the "Established Programs" represents the results of a like review of a group of programs involving a very large part of expenditures. The financing formula for defence expenditures followed from a continuing review of that program whose budget now accounts for 11 percent of total budgetary Main Estimates.

The Board and the interested departments recently conducted a thorough review of the Search and Rescue activity of the government which led to a substantial change in the method of meeting the objectives of this activity.

The above are just a few specific examples from many that could be cited.

Many Cabinet documents are based on a study of an existing program and its shortcomings. The large X Budget on 1976-77 planned expenditures took advantage of knowledge of various programs built up through reviews. The major manpower allocations and the forced absorption of much of the effect of rising costs attest to reviews made in the course of the Program Forecast and Estimates exercises.

It has of course to be realized that the decision making process has a limited capacity imposed by time. It has to accommodate real, live current situations and these situations themselves serve to stimulate annually a list of reviews of programs.



AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

10.13 Departmental personnel divisions should participate in the review of Program Forecasts. In addition, the Personnel Policy Branch of the Treasury Board Secretariat and the Public Service Commission should be consulted on the personnel implications of Program Forecasts before Treasury Board approval of budget levels. (3.48)

10.14 Action needs to be taken to improve the quality of the data contained in Program Forecasts and Estimates submissions by:

- reassessing the suitability of the present structure of departmental programs and activities;
- promoting the use of procedures to extend the capability of financial systems to measure performance;
- reviewing in greater detail data submitted by departments;

TREASURY BOARD RESPONSE  
June 21, 1976

We agree that departmental personnel divisions should participate in the review of Program Forecasts. The Personnel Policy Branch of Treasury Board is consulted on the personnel implications of departmental proposals and this Branch in turn consults with the Public Service Commission on manpower requirements.

The Treasury Board position with regard to each of the specific recommendations is as follows:

- Departmental planning units and the Program Branch of Treasury Board are continually reviewing Program/Activity structures. The Financial Administration Branch will consult and liaise with the Program Branch to ensure adequate disclosure.
- Treasury Board fully agrees with the need to promote systems to measure performance. The Planning Branch is overseeing the development of systems to meet the requirements of existing policy.
- Data submitted by departments is reviewed in conjunction with other data obtained by program analysts.

T.B. ACTION REPORTED  
To March 31, 1977

As reported in paragraph 4.26 of the Auditor General's 1976 Report, the Personnel Policy Branch of the Treasury Board Secretariat, in conjunction with the Public Service Commission has proposed policies and systems on human resource planning. The Auditor General has observed that the implementation of these policies and systems will satisfy the need reflected in the recommendation for the improved recognition of personnel implications in Program Forecast and Estimates reviews.

Departmental planning units and analysts of the Program Branch are continually assessing and attempting to improve information contained in the Program Forecast and Estimates as well as to improve the analyses performed on that information.

- The President of the Treasury Board has made a statement in the House on the government's system of performance measures and issued a booklet on its theory and operation.

AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKEN

The action taken by Treasury Board will need to be reviewed with departmental personnel divisions before commenting on its effectiveness.

The Treasury Board response indicates that action is being taken solely by departmental planning units and analysts of the Program Branch. This is desirable but it is also important that a Comptroller General and departmental controllers also ensure that the data is appropriate for control purposes as well as for analysis. The Treasury Board response recognizes the need to use actual financial data to compare with estimated data used in compiling the Estimates, but it fails to recognize that without detailed comparison of actual expenditures with those planned when the Estimates for that year were approved, a comparison of totals for separate years may be more misleading than helpful.

AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKENT.B. ACTION REPORTED  
To March 31, 1977TREASURY BOARD RESPONSE  
June 21, 1976

- The Program Forecasts are required to contain the latest expenditure outlook under each heading for the year that would be just coming to a close (i.e. 1975-76 data in the 1977-78 Program Forecast; 1976-77 would have just begun). The accuracy of these expenditure data compared to original estimates can often be an important consideration to be borne in mind by analysts in developing recommendations for the new year.
- It should be noted that departments are instructed as to the rate to be used in estimating programs indexed by the CPI (OAS-GIS, Family Allowances, Veterans Pensions). Unemployment rate assumptions are established centrally through discussions between the DIC and central agencies. Departments are provided direction as to the assumptions they should make in estimating the costs of general salary increases. However, the Secretariat does not agree that an allowance for inflation should be built into all programs. One of the ways of restraining the growth in expenditures is to encourage the absorption of price increases through greater efficiency and adjustments in the program. For this reason, the departments are required to establish the necessity in each case for additional resources to cover price increases.
- In most cases the quality of budgetary data is considered adequate. Where a recurrent error is identified, corrective steps are taken.
  - The basis of increases to cover inflation is established centrally. However, price increases normally have to be established individually and are usually allowed for in the Main Estimates.
  - Treasury Board agrees entirely with the need to review the effect of changes in inventory levels. The Policy on Financial Administration contains specific guidelines in this area.
  - Departments are required, for their own planning and management purposes, to forecast future year requirements. However, given the gap that develops between Program Forecast demand and Estimates reality it is pointless for the Treasury Board to spend time checking Program Forecasts against final expenditures.
  - following up on actual expenditures as a means of assessing the quality of budgetary data;
  - establishing centrally the basis of amounts included to cover inflation;
  - reviewing the effect of changes in inventory levels; and
  - following up on future year projections included in Program Forecasts. (3.64)

AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

10.15 A comprehensive resource allocation manual should be prepared containing a consolidated, updated version of appropriate sections of Treasury Board manuals, guides and circulars which deal with the resource allocation process. These should be supplemented by annual letters to each department suggesting improvements in the quality, content and presentation of the past year's submissions. Departments should reply formally stating plans for improvement. (3.71)

10.16 The Treasury Board Secretariat should study the reasons for the high rate of turnover of program analysts and take steps to remedy the problem. (3.75)

TREASURY BOARD RESPONSE  
June 21, 1976

Communications on resource allocation and control consists of the Planning, Programming and Budgeting Guide, the Program Forecast and Estimates Manual and circulars on four specific topics. The flexibility provided by communicating through circular letters facilitates Treasury Board's ability to keep current.

The reasons for the comparatively rapid rate of turnover of analysts in the Program Branch of the Treasury Board Secretariat are known, and indirectly are the product of a conscious staffing policy to recruit highly qualified and experienced personnel with demonstrated career potential. Operating departments seek to recruit Treasury Board analysts because of these factors and also because of the recognized value of the experience that analysts gain in their every-day work. Continuity is achieved by some promotions from within, by good documentation, and by a central Estimates Division of the Branch who monitor procedures. Through its staffing policy, the Branch balances the need for continuity with the advantages of an ever-renewed stream of active fresh minds.

T. B. ACTION REPORTED  
To March 31, 1977

In supplementation of the earlier response it should be noted that the essential elements of the documentation on resource allocation (referred to in the response) are prepared on a common format so that all may be inserted in one binder at the individual user's discretion. However, not all users need all the elements at the same time and many find it convenient to keep them separate.

The reasons contained in the Treasury Board response are acknowledged, but I remain concerned about the impact of this turnover on the effectiveness of the Program Branch.

AUDITOR GENERAL COMMENTS ON T. B.  
RESPONSE AND ACTION TAKEN

The communications referred to in the response were available at the time of the Study. The planning, Programming and Budgeting Guide was issued in 1969 and practices now accepted by Treasury Board often do not correspond to its requirements. The Guide on Financial Administration is not mentioned in the Treasury Board response and departments are uncertain whether directives and guidelines on the subject of resource allocation apply.

AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

10.17 The Program Branch ought to develop standard internal checklists, questionnaires and methods for documentation of decisions. (3.77)

TREASURY BOARD RESPONSE  
June 21, 1976

The Program Branch will develop better written directions and guidance for program analysts.

T.B. ACTION REPORTED  
To March 31, 1977

The need for written instructions to program analysts has been acknowledged and a formal training guide has been developed which is supplied to each new program analyst. Where practicable, standard approaches are reflected in the written instructions included in this guide, and also in the form of the various précis used in developing recommendations to the Board, together with the forms used in program reviews and in the Main and Supplementary Estimates reviews. Given, however, the great variety of submissions that are received by the Secretariat, covering every conceivable aspect of government operations, with wide-ranging legal, financial and technical considerations, it is our view that it would be impractical to attempt any standardization of the submission assessment function.

10.18 An intensive training course covering all appropriate aspects of the resource allocation process should be developed and made compulsory for all officials primarily involved in the planning and budgeting functions in each department and agency. (3.80)

A Professional Development Division is being established within the Financial Administration Branch of the Treasury Board Secretariat, to review and monitor, on a government-wide basis, the training of financial administrators. An intensive and comprehensive training program for public administrators will be developed by the Secretariat. The course will cover all aspects of the resource allocation process and will provide the recommended training for officers in the planning and budgeting functions.

AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKEN

The formal training guide has not been made available to my Office and therefore it is not possible to comment on the adequacy of the action taken.

The training course which has been developed is a useful first step in making senior managers conscious of their responsibilities in the resource allocation process.

It is hoped that this training course will be up-dated as the system for allocation of resources is improved. It is noted that the Treasury Board intends to use the curriculum and course material in training programs at other levels of the Public Service. The results in terms of improved performance will be known only after this has been done.

The Treasury Board Secretariat, in conjunction with the Public Service Commission, has been developing a Government Expenditure Management Course, the first session of which was held in December 1976. This course is designed for senior program managers and financial officers. The course covers all aspects of the expenditure management process in its widest sense, including Parliamentary control, the supply cycle, the economic and fiscal considerations that are born in mind in developing the fiscal framework, the Cabinet committee system as it bears on resource allocation and, of course, internal departmental operations. Arrangements have been made to draw upon the most knowledgeable experts as lecturers and seminar leaders on all areas to be covered. The curriculum and the course material which has been developed are expected to be used in appropriate personnel training programs at other levels of the Public Service.



# Treasury Board Report to the Public Accounts Committee, March 31, 1977

## AUDITOR GENERAL RECOMMENDATION (1975 Report)

10.19 Departments should be required to assess services to the public annually within guidelines given to them by Treasury Board and to submit recommendations for continuing revenue policies or for increasing or reducing fees charged because of changes in the services offered or in the cost of providing them. Treasury Board should in turn be required to submit annual recommendations on revenue policies to the Governor in Council for consideration under the provisions of Section 13 of the Financial Administration Act. (3.86)

10.20 Treasury Board should give more consideration to establishing separate allotments where significant amounts of funds are provided for purposes that are discretionary and therefore controllable by management. (4.12)

## TREASURY BOARD RESPONSE June 21, 1976

The recommendation is consistent with existing recommended practice contained in the Guide on Financial Administration. However, it is agreed that this could be given more emphasis and will therefore be incorporated into the policy as a Guideline.

The Board now makes extensive use of separate allotments for grants contributions, major capital expenditures not covered by a separate vote, and provisions for salary money. The additional use of allotments would result in the imposition of rigid controls which would reduce the ability of public service managers to manage effectively and result in a substantial increase in the requests to Treasury Board to adjust allotments to meet changing operating conditions. The Treasury Board does not agree with this recommendation and has no plans to make greater use of allotment control.

We believe that a system of commitment control is essential in maintaining parliamentary control and therefore cannot agree with this recommendation although we do agree that commitments need only be reported periodically, usually more to the end of the fiscal year.

## T.B. ACTION REPORTED To March 31, 1977

Each year, in conjunction with the Program Review exercise, departments are required to review their services to the public and the charges for such services.

Grants and contributions make up 56% of 1976-77 Main Estimates; public debt 12%; salary and other personnel costs 18%; capital 4% - in total about 90% covered by the routine directions on allotment control. The remainder is operating costs, containing many large items about which there is little or no discretion (the cost of moving the mail, the cost of purchasing training and other services from the provinces under agreements). Capital projects are also covered by specific approvals as to total cost and expenditure progress is reported quarterly. Allotment controls on salaries at the program level leave some discretion on staffing as between activities within the program but this is in general not considered undesirable so as to allow managers some discretion to adjust to changes in circumstances or defects in plans.

Not required.

## AUDITOR GENERAL COMMENTS ON T.B. RESPONSE AND ACTION TAKEN

The action indicated is new and will have to be examined to determine whether past deficiencies have been remedied.

The present parliamentary votes are so large and general in nature that use of allotments or other measures to control major program components that are of a discretionary nature is still recommended.

The desire of the Treasury Board to continue to require commitments to be recorded as a supplement to a budgetary control system is accepted.



AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

- 10.22 Departmental budgetary control and reporting systems need as a minimum:
- properly defined cost components and cost information so managers can be held accountable for performance;
  - detailed budgets by time period in accordance with the assignment of managerial responsibility;
  - consistency between budgeting and accounting;
  - timely preparation and distribution of periodic financial reports; and
  - analysis of variances between planned and actual results. (4, 29)

TREASURY BOARD RESPONSE  
June 21, 1976

This recommendation reiterates existing Treasury Board policy which was adopted in 1973. The new Financial Administration Branch through its Financial Policy Development Division will review and approve all proposals for systems development and, in conjunction with the Financial Policy Evaluation Division, will ensure compliance with the policy.

T.B. ACTION REPORTED  
To March 31, 1977

As explained under 10.26 and 10.31, the Systems Policy Group of the Financial Administration Branch is presently involved in a study of departmental reporting systems. This study will establish the requirements for such reports as well as recommend the means by which these reports should be provided on a timely and accurate basis. The next step will be to work with departments and agencies to ensure that the necessary systems are developed. The Evaluation Division monitors all aspects of the TB Policy through the evaluation program. Phase III of this program, which commenced in October 1975, specifically covers budgetary control and reporting systems. These reviews have identified a number of weaknesses and have led to the development with departments of implementation plans to improve those systems. The plans are continuously monitored to ensure that the corrective measures are implemented. To date we have reviewed these systems in 10 departments and anticipate that the reviews will cover the majority of the major departments by the end of 1977.

AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKEN

Departmental actions in response to Treasury Board evaluations will need to be assessed to determine whether the resulting systems satisfactorily meet the requirements outlined in the recommendations.

- 10.23 Performance indicators are needed as an integral part of departmental budgetary control and financial reporting systems in all areas that can be effectively measured. (4,35)

The need for performance indicators is agreed and departments are working towards implementation of the Treasury Board policy requirements in this area.

The existing performance measurement system has not been developed as an integral part of departmental budgetary control and financial reporting systems. The effectiveness of a number of applications of performance measurement systems will be evaluated as part of a special project of my Office which has recently been initiated.

This need has long been recognized by the Treasury Board Secretariat, as the Progress Report on Performance Measurement which was tabled in the House of Commons on November 17 clearly indicated. Development of the basic framework for performance measurement in the Public Service started six years ago; and the Treasury Board's first manual on this subject was issued in 1974, a few months before the Auditor General's Financial Management and Control Study was initiated. At last count, government operations involving 166,000 public servants were covered by

performance measurement systems - close to 39% of all authorized man-years in the current fiscal year, and about 2/3 of the potential number of employees to which these systems could apply, at their present stage of development. Moreover, 21 federal departments and agencies had sufficiently developed systems this year to present some performance data to the Treasury Board in support of their 1977-78 expenditure forecasts. The government is pursuing with renewed vigour and urgency the development and use of performance measurement systems as part of its continuing efforts to restrain public expenditures and improve the efficiency and cost-effectiveness of federal programs. The Secretary of the Treasury Board reminded Deputy Heads of departments and Heads of agencies of the obligations placed on them in this regard by TBS Circular 1976-25 dated July 22, 1976. The Secretariat has also begun department-by-department audits of performance systems to ensure among other things that such systems will be fully functional by 1980, for all government operations where this is feasible.

The need to integrate performance indicators into departmental budgetary control and financial reporting systems will be further emphasized in both the establishment and implementation of requirements for departmental reporting systems through the Study described in the response to recommendation 10.22.

AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

10.24 A central agency should approve and periodically reassess departmental budgetary control and financial reporting systems to ensure their adequacy for purposes of satisfying the needs of Parliament and of the government, as well as of departments. (4.38)

TREASURY BOARD RESPONSE  
June 21, 1976

The Financial Administration Branch now has the responsibility to review and approve all departmental budgetary control and financial reporting systems as well as the responsibility to continually monitor them to ensure their adequacy.

T.B. ACTION REPORTED  
To March 31, 1977

As explained under 10.31 a Financial Systems Policy Group has been established within the Financial Administration Branch to develop standards for financial systems and to approve departmental systems before they are implemented. They are presently involved in the study of departmental financial reporting described under 10.26. Budgetary control and financial reporting systems will continue to be priority items in this group's workload. In addition, the Policy Evaluation Division conducts continuous reviews of financial practices and systems to ensure their adequacy and conformity with Treasury Board policy. In the current evaluation program, ten departmental systems of budgetary control and reporting have been examined. Where deficiencies have been identified, an action plan has been developed with the particular department by which the necessary improvements will be implemented.

AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKEN

The effectiveness of Treasury Board actions cannot be commented on until the standards are available, the study is completed and the action plans resulting from Treasury Board evaluations have been implemented.

10.25 A monthly report based on analysis of department budgets and expenditures and variances between them, should be prepared so that Treasury Board can take action to control overspending or to freeze excessive resources. (4.46)

Whilst it is agreed and confirmed that the Treasury Board has access to any expenditure information that it may require in order to fulfil its central management function, it must be recognized that the responsibility and accountability of departments and agencies cannot be diluted by any attempt to assume, during the program implementation phase, the control of resources appropriated by Parliament for departmental programs and activities. Instead, further emphasis must be given to the accountability of departments for such resources. The Treasury Board Secretariat is actively considering the manner in which this accountability concept may be strengthened.

Our current policy supports the principle of delegated resource management by establishing: the responsibility of the deputy head for the financial administration of his department; standards for departmental systems of budgetary control and financial reporting; standards for financial organization to ensure that competent financial officers are responsible for departmental financial analysis and control and for advising deputy heads; and standards of internal audit within departments. The Treasury Board, through its evaluation process, examines the components of the financial systems and deficiencies are reported to the deputy head and any remedial action necessary is agreed to. The two principal occasions on which the Treasury Board program analyst must be provided with information are during the annual review of the Program Forecast submissions and during the review of any request for resources. There is a close working relationship between the analyst and his departments. Since the range of issues that the program analyst must deal with is so broad and varied, a variance reporting system, to be satisfactory, must be designed to be sufficiently responsible to his needs. It is our intention to explore with Supply and Services how their Central Agency Information System can fulfil these requirements.

The policies if implemented should enable Treasury Board to obtain the information it requires for purposes of resource allocation. However, the response of the Treasury Board Secretariat fails to recognize any ongoing responsibility for monitoring retrospectively the resource allocation decisions it has taken and departmental utilization of the resources appropriated for their use. This is why a Comptroller General is required to monitor on behalf of Treasury Board departmental actions in relation to the resource allocations originally taken and changes in circumstances since then.

AUDITOR GENERAL RECOMMENDATION (1975 Report)	TREASURY BOARD RESPONSE June 21, 1976	T. B. ACTION REPORTED To March 31, 1977	AUDITOR GENERAL COMMENTS ON T. B. RESPONSE AND ACTION TAKEN
10.26 A study should be undertaken to determine the most appropriate method of achieving timely and accurate financial reports for departments and agencies. (5.24)	The Financial Administration Branch will conduct such a study in conjunction with the Information Systems Division, Treasury Board Secretariat and the Department of Supply and Services.	<p>This study is underway and the Systems Policy Group of the Financial Administration Branch is working closely with the Government of Canada Accounting Branch of the Department of Supply and Services. A questionnaire has been circulated to all departments and agencies to identify problem areas which affect the timeliness and accuracy of financial reports. The questionnaire was separated into two parts with the first part to be answered by the Senior Full Time Financial Officer and the second part to be answered by responsibility centre managers. Interviews were held with those who replied to the questionnaire in some cases. Responses to the questionnaire are presently being analyzed and the results will be presented to the Policy Advisory Committee of the Financial Services Wide Application Centre and the Office of the Auditor General. A report containing conclusions and recommendations on the basis of the questionnaire is to be produced by March 1977, thereby completing Phase I of the Study.</p> <p>Phase II of the Study involves identifying and analyzing alternative solutions to problems identified in Phase I. Study teams will be formed to assess the feasibility of alternative solutions. Once the best alternatives are determined and approved, design specifications will be developed. Phase II should be completed by the fall of 1977.</p> <p>Phase III will consist of implementation.</p>	Each phase of the action program will have to be examined when they are completed to ensure that they remedy the deficiencies revealed by the Financial Management and Control Study.



# Treasury Board Report to the Public Accounts Committee, March 31, 1977

## AUDITOR GENERAL RECOMMENDATION (1975 Report)

10.27 A study should be undertaken to determine how departments could better prepare and control payroll documentation up to the point of submission to a central or regional pay office of the Department of Supply and Services, these offices being responsible only for cheque preparation and for the systems and procedures necessary to process the payroll, to make the required withholdings, and to provide essential information to central agencies. (5.38)

## TREASURY BOARD RESPONSE June 21, 1976

The Personnel Policy Branch, Treasury Board Secretariat, initiated a study of the pay system in June 1975 in conjunction with the Financial Administration Branch and the Department of Supply and Services.

## T. B. ACTION REPORTED To March 31, 1977

The Pay Study Task Force Report was sent to all Deputy Ministers on November 30, 1976.

One of the major recommendations of the report is that the responsibility for accurate pay input rests solely with departments and the Department of Supply and Services should discontinue the current practice of manually verifying pay input documents submitted by departments. The role of the Department of Supply and Services as recommended in the Report is to act as a 'Service Agency' in calculating entitlements, remitting deductions to agencies, issuing pay and supplying data to information systems.

The report sets out principles and sample procedures to illustrate how departments can initiate, verify and control accurate pay input. The procedures as set out in the report involve employees, managers, personnel officers and financial officers in ensuring that an accurate and properly controlled pay system will result.

The report has been accepted in principle by Personnel Policy Branch and Financial Administration Branch and implementation of the recommendations has commenced. A senior officer of Financial Administration Branch is currently acting as the head of the group within Treasury Board Secretariat charged with the responsibility for implementation. Those departments which requested a briefing on the report have been briefed. Departmental comments, requested in the letter accompanying the report, are currently being received and reviewed.

The total implementation plan as set out in the report covers the next two and one half years.

## AUDITOR GENERAL COMMENTS ON T. B. RESPONSE AND ACTION TAKEN

The Pay Study Task Force Report has been submitted to my Office, and most of the improvements proposed in my 1975 Report have been accepted. However, it is not possible to determine from the Report whether adequate provision has been made for financial control over the proposed system. Discussions are underway to obtain this assurance and the implementation will be monitored as it is put into effect in the next two and one-half years.

AUDITOR GENERAL RECOMMENDATION (1975 Report)	TREASURY BOARD RESPONSE June 21, 1976	T.B. ACTION REPORTED To March 31, 1977	AUDITOR GENERAL COMMENTS ON T.B. RESPONSE AND ACTION TAKEN
<p>10.28 In all financial systems, duties should be carefully segregated so that, without unnecessary duplication of effort, one staff member or one element of a system maintains an effective independent control upon the integrity and accuracy of another. In particular there should be an adequate segregation of spending authority from payment authority for all expenditure transactions and also of such duties as verifying accounts for payment, preparing documentation, requisitioning and distributing cheques, and receiving and depositing money. Control should be established as early as practicable and maintained through all stages of manual, mechanical and electronic processing.</p>	<p>This recommendation reiterates existing Treasury Board policy which was adopted in 1973. The Financial Policy Evaluation Division will be continually monitoring departmental compliance.</p>	<p>The Financial Administration Branch has evaluated every department and agency with respect to the adherence to these policies. Plans have been developed to correct weaknesses and these plans will continue to be monitored.</p>	<p>Weaknesses in departmental systems, as revealed by the Financial Management and Control Study, will need to be re-examined to ensure that the action taken to remedy them has been effective.</p>
<p>The chapter in the Guide on Financial Administration on Financial Control of Expenditures has recently been expanded to include standards for control of the Distribution of Receiver General Cheques. Also, standards have been included for the operation of Departmental Bank Accounts. In both, departments and agencies are required to develop and document procedures that implement policy in accordance with these standards and submit them for approval before implementation. These procedures must meet the principles of full segregation of duties, early establishment of control documents and cheques, proper authorization on documents and prevention of the return of a cheque to anyone who participates in any of the transactions prior to cheque issue.</p>	<p>Also, an evaluation of petty cash practices has been made which will result in an amendment to the Guide on Financial Administration which will detail accepted principles for the control of petty cash expenditures and physical security of funds.</p>		

# Treasury Board Report to the Public Accounts Committee, March 31, 1977

## AUDITOR GENERAL RECOMMENDATION (1975 Report)

10.29 Financial staff should be responsible for ensuring that there are controls within payroll systems just as in all other administrative systems giving rise to financial transactions. (6.27)

## TREASURY BOARD RESPONSE June 21, 1976

This is entirely consistent with Treasury Board policy which recognizes the responsibility of departmental senior financial officers for financial controls within the pay system. The Financial Administration Branch is involved in the study of the pay system referred to under paragraph 10.27 to ensure that there will be adequate financial controls.

## T. B. ACTION REPORTED To March 31, 1977

As pointed out in the response to paragraph 10.27; employees, managers personnel officers and financial officers are involved in departmental pay administration. The Pay Study Task Force report emphatically states, however, that the responsibility for financial controls over the pay process are clearly the responsibility of the Senior Financial Officer and his staff within departments. This is not new policy but is a restatement of the policy contained in the Guide on Financial Administration and other documents issued by the Financial Administration Branch. The report does however relate the general policies on financial administration which now exist to the specific requirements of pay administration.

An important part of the implementation plan contained in the Pay Study Task Force report is for Treasury Board Secretariat to issue implementation guidelines on all recommendations including those on financial controls. Departments will be requested to make a submission to TBS describing how they will meet the requirements of the guidelines. These submissions will be reviewed individually and approved or rejected pending the required changes.

The Financial Administration Branch has evaluated the financial organizations of every department and agency to ensure that the responsibility for financial administration of pay processing has been clearly recognized.

## AUDITOR GENERAL COMMENTS ON T. B. RESPONSE AND ACTION TAKEN

The implementation guidelines cannot be commented on until they are available. Their effectiveness will need to be reviewed as part of our ongoing audit examination of individual departments and agencies.

AUDITOR GENERAL RECOMMENDATION (1975 Report)	TREASURY BOARD RESPONSE June 21, 1976	T.B. ACTION REPORTED To March 31, 1977	AUDITOR GENERAL COMMENTS ON T.B. RESPONSE AND ACTION TAKEN
10.30 All revenues, accounts receivable and significant inventories should be under effective systems of control, generally an independent accounting control. (6.37)	This recommendation reiterates existing Treasury Board policy. The Financial Policy Evaluation Division is continuously monitoring departmental implementation of these requirements.	In the first phase of the evaluation program which was conducted in 1973-74, the Financial Administration Branch evaluated every department and agency with respect to adherence to the Treasury Board policy as enunciated in the Guide on Financial Administration. Deficiencies were identified and departments have since developed systems to improve control over these areas. The Branch has been involved in improving the settlement of interdepartmental accounts through the development of the system of Interdepartmental Settlement Advances and the Study of Automatic Settlement presently sponsored by the Department of Supply and Services. In addition, problems identified in the 1976 Annual Report of the Auditor General concerning the receipt and deposit of public monies will be investigated this year.	The effectiveness of these actions will need to be reviewed as part of our ongoing audit examination of individual departments and agencies.
10.31 Departmental systems should be reviewed and approved by a central agency to ensure that they comply with Treasury Board regulations and such other instructions as are required to ensure adequate control of expenditures, revenues and assets. (6.42)	The Financial Administration Branch through its Financial Policy Development Division will review and approve all new departmental systems to ensure compliance with Treasury Board policy. Existing systems are subject to evaluation by the Financial Policy Evaluation Division.	Within the Financial Administration Branch there has been established a Financial Systems Policy Group which is responsible for the development of standards for financial systems employed by departments and the approval of departmental systems proposals to ensure that they meet those standards. At this time there are three officers in this section who are heavily involved in the studies of departmental reporting systems and the payroll system described under	Deficiencies in departmental systems revealed by the Financial Management and Control Study will need to be re-examined in order to comment on the effectiveness of the proposed program in those areas where it has been put into effect.

10.31 (cont'd)

10.26 and 10.27. In addition, they are reviewing departmental systems proposals which currently include the reporting system of Energy, Mines and Resources, an allotment control system at Manpower and Immigration, the study on Automatic Settlement of Interdepartmental Accounts sponsored by Supply and Services, and an allotment and control system of the National Research Council. Staffing is continuing and it is intended that by the end of the next fiscal year, there will be a total of nine officers in this group.

In addition, the Policy Evaluation Division is presently staffing a Systems Evaluation group to perform in depth evaluations of: the adequacy and effectiveness of systems of financial administration operated on a government-wide basis; the adequacy of the financial control aspects of departmental operational systems, and; the reliability of the financial reporting process, including budgetary systems and costing and financial information systems.

As outlined under 10.24, the current evaluation program includes a review of departmental budgetary control and reporting system. Some departmental evaluations have been completed or are in process.



AUDITOR GENERAL RECOMMENDATION (1975 Report)	TREASURY BOARD RESPONSE June 21, 1976	T.B. ACTION REPORTED To March 31, 1977	AUDITOR GENERAL COMMENTS ON T.B. RESPONSE AND ACTION TAKEN
10.31 (cont'd)	<p>The central agency of the government responsible for prescribing the standards, scope and coverage of departmental financial audits should give greater emphasis to monitoring departmental internal audits so as to encourage greater adherence to the standards. (7.12)</p>	<p>The Financial Policy Evaluation Division will conduct continuous reviews of all financial administration practices and systems to ensure their adequacy and consistency with established policy.</p>	<p>The standards for internal audit cannot be commented on until they are available. The effectiveness of Treasury Board actions will need to be examined through our ongoing audit examination of individual departments and agencies.</p>
10.32	<p>The Financial Administration Branch will provide advice and leadership in internal financial audit and will carry out in-depth evaluations of internal audit activities in departments as well as prescribe the standards, scope and coverage of such audit.</p>	<p>The Treasury Board financial evaluation officers reviewed the status of internal financial auditing in each of the 58 departments and agencies covered by the policy. While many of the departments still do not fully meet the requirements of the policy, a target date for implementation of the policy on internal audit has been established with each of the departments.</p> <p>To encourage and speed up the strengthening of departmental internal audits, a position of Chief of Internal Audit Standards and Evaluation, has been established and filled in the Financial Administration Branch of the Treasury Board Secretariat. The responsibilities of this position will include:</p> <ul style="list-style-type: none"> <li>- the establishment of comprehensive standards for internal audit;</li> <li>- the provision of advice and leadership to departmental internal auditors;</li> <li>- the co-ordination of training for internal auditors on a government-wide basis; and</li> <li>- the in depth evaluation of the quality and scope of internal audit activities in departments.</li> </ul>	<p>The standards for internal audit cannot be commented on until they are available. The effectiveness of Treasury Board actions will need to be examined through our ongoing audit examination of individual departments and agencies.</p>

AUDITOR GENERAL COMMENTS ON T.B.  
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AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

10.32 (con'td)

A comprehensive review of internal financial audit in the Government of Canada is underway to define the objectives of internal financial audit in the government environment and to establish standards for the conduct of such audits throughout departments.

AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

10.33 A comprehensive study of personnel systems related specifically to financial administrators should be undertaken to consider the advisability of establishing a professional government accounting group commensurate with the current and future needs of government for financial management and control. (8.13)

TREASURY BOARD RESPONSE  
June 21, 1976

Although we agree that it would be an improvement to establish a separate professional government accounting group we do not consider it advisable at this time since it could further aggravate the shortage of financial administrators referred to in 10.34. A similar recommendation was made in 1973 by a committee of financial administration and rejected for the same reasons.

T.B. ACTION REPORTED  
To March 31, 1977

The Treasury Board Secretariat in conjunction with the Public Service Commission has provided opportunities for financial officers and support staff to become professionally accredited accountants through an accelerated training program. This program is based on the curriculum of the Society of Industrial Accountants and leads to a 'Government of Canada Financial Management Certificate'. Successful graduates are then encouraged to complete the necessary courses to obtain accreditation as professional accountants.

In addition, the Treasury Board Secretariat is considering the implementation of a Financial Officer Development Program to help overcome the shortage of qualified financial officers. This program would include academic and on-the-job training similar to University cooperative plans and envisages the establishment of training positions to be filled by both University graduates and support staff working in financial administration.

The above programs, over a period of time should do much to ensure that most finance administrators in the public service are professionally qualified.

AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKEN

The success of the programs reported by Treasury Board will depend upon whether those trained under these programs receive proper leadership from the senior financial officers from whom they receive functional direction.

# Treasury Board Report to the Public Accounts Committee, March 31, 1977

AUDITOR GENERAL RECOMMENDATION (1975 Report)	TREASURY BOARD RESPONSE June 21, 1976	T.B. ACTION REPORTED To March 31, 1977	AUDITOR GENERAL COMMENTS ON T.B. RESPONSE AND ACTION TAKEN
10.34 A comprehensive review is required to establish the need in government for financial administration personnel by type and level and to develop a program to alleviate the present shortage and excessive turnover. (8.21)	As reported by Mr. J.J. Carson, Chairman of the Public Service Commission to the Public Accounts Committee on April 8, 1976 the shortage of financial administrators has been substantially reduced and the present vacancy rate is considered normal. The Director, Professional Development, Financial Administration Branch in cooperation with the Public Service Commission will continue to monitor recruitment and manpower utilization schemes.	The Public Service Commission and the Treasury Board Secretariat have formed a joint task force to undertake a comprehensive review of all personnel aspects of financial administration in the Public Service. A study of growth and movements within the financial administration group has been prepared and the task force is now considering the feasibility of introducing a service-wide appraisal system and a manpower inventory system.	Results will have to be monitored to determine whether the previously extensive turnover and vacancy rate is being alleviated.
10.35 Responsibility for assisting the Public Service Commission in matters relating to the training of staff in the financial area, overseeing their career development and advising on their qualifications for advancement should be assigned to a central agency of the government having the knowledge needed to carry out this role of ensuring that departments are staffed by capable financial personnel. (8.30)	The Financial Administration Branch will assume complete responsibility for this function.	For the past twelve months the Financial Administration Branch has been assisting the Public Service Commission in the selection and placement of qualified financial officers, particularly at senior levels. As noted in our comments on paragraph 10.34 above, the Branch is working with the Public Service Commission to establish a manpower inventory system which will provide an up-to-date record of suitably qualified candidates for employment in financial administration.	The effectiveness of the action program can only be determined in terms of the overall improvements experienced in the systems of departments and agencies and of the government.
		Implementation of these systems should result in a more comprehensive understanding of the characteristics and movements within the financial administration community. Information generated by these systems should lead to the development of new programs to help alleviate any excessive turnover or shortages.	

AUDITOR GENERAL RECOMMENDATION  
(1975 Report)TREASURY BOARD RESPONSE  
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RESPONSE AND ACTION TAKEN

10.35 (con'td)

10.36 The senior departmental officer responsible for financial management and control should report directly to the deputy head and be a member of the departmental management committee. He should always have the training and experience to act as the deputy head's adviser on all aspects of financial management and control, and to provide the necessary leadership to all financial staff in the department. (9.12)

This recommendation is consistent in part with existing Treasury Policy and the financial organizations of all departments have been evaluated by the Financial Administration Branch. Implementation of recommended improvements is being monitored.

The Branch has also been engaged with the Commission in the development of financial management training courses for public service employees (see paragraph 10.33 above). A Government Expenditure Management Course has been developed for a combination of senior program managers and senior financial officers to provide them with a forum to discuss their views on procedures and problems related to the expenditure process and financial management generally.

Another significant initiative taken by the Financial Administration Branch has been to establish an Interdepartmental Advisory Committee on Financial Administration Training and Development.

The financial organization and reporting relationships of every department and agency has been evaluated by the Financial Administration Branch and where necessary recommendations have been made to strengthen the financial function. The implementation of these recommendations will be monitored.

As a result of consultation with departments on this topic, organizational changes have resulted in strengthened financial advice to the Deputy Ministers of Veterans Affairs, National Revenue Taxation and National Revenue-Customs and Excise. Similarly, the Financial Administration Branch was consulted in the merger of the Department of

The improvements reported are encouraging, but their effectiveness depends not only on organizational changes but also on the training and experience of those appointed to fill the position of the senior departmental financial officer or comptroller, and the extent and nature of their other responsibilities.



10.36 (con'td)

the Department of Manpower and Immigration and the Unemployment Insurance Commission and particularly, with respect to the organization of the Financial Administration responsibility. To meet this responsibility the Branch has been working closely with the Organization Division of the Planning Branch and has been successful in supporting departmental submissions concerning the allocation of additional resources for financial administration.

10.37 Senior departmental financial officers ought to give greater direction or guidance to staff performing financial management and control duties within departments. This should include as a minimum:

- comprehensive departmental financial manuals;
- personal contacts with financial and other officers to whom they give technical direction, including formal meetings and periodic field visits; and
- participation of the selection, training and evaluation of financial staff, even where they are not directly under their supervision. (9.19)

This recommendation reiterates existing Treasury Board policy and its implementation is being monitored in all departments by the Financial Administration Branch.

To ensure that these policies and the role of senior financial officers were properly understood and supported within departments, the financial organization of every department and agency has been evaluated. In particular deficiencies where identified and plans for corrective action were developed with respect to financial manuals, functional direction and control and the development of adequate financial staff.

The Financial Administration Branch continually is encouraging and supporting senior departmental financial officers to assume greater functional leadership. Discussions with deputy ministers on this issue have proven very beneficial in gaining their support for the implementation of this Treasury Board policy.

The actions reported by Treasury Board will need to be reviewed by examining the manner in which senior departmental officers discharge their responsibilities in these areas.

AUDITOR GENERAL RECOMMENDATION (1975 Report)	TREASURY BOARD RESPONSE June 21, 1976	T.B. ACTION REPORTED To March 31, 1977	AUDITOR GENERAL COMMENTS ON T.B. RESPONSE AND ACTION TAKEN
<p>10.38 Senior departmental financial officers ought to be given responsibility for:</p> <ul style="list-style-type: none"> <li>- providing budgetary, accounting and financial reporting services;</li> <li>- ensuring that adequate financial controls exist over all assets and financial transactions;</li> <li>- advising and supporting deputy heads and their staff in all matters pertaining to financial management and control;</li> <li>- developing, monitoring and controlling budgetary allocations through analysis of financial reports and ensuring the adequacy of the systems used in their preparation; and</li> <li>- furnishing technical direction and guidance to all personnel within departments responsible for these duties. (9.29)</li> </ul>	<p>This recommendation also reiterates existing Treasury Board policy and the Financial Administration Branch is monitoring departmental implementation.</p>	<p>During the second phase of the evaluation program conducted in 1974-75, the duties and role of the financial officers of every department and agency were evaluated by the Financial Administration Branch to determine their compliance with the Treasury Board policy. Where necessary recommendations were made to change or clarify responsibilities of financial officers and support was provided to financial officers with their various senior managements in arbitrating any organizational differences. The Branch continues to provide support to departmental financial officers in these areas. All departments and agencies have acknowledged and accepted our policy in this area.</p>	<p>Specific deficiencies revealed by the Financial Management and Control Study will need to be re-examined to determine whether they have been remedied.</p>
<p>10.39 The Public Service Commission ought to appoint senior departmental financial officers only after consultation with appropriate central agencies to ensure that recognition is given to the qualifications and performance of the persons recommended by deputy heads. Appointments of other financial officers ought to be made within departments only after similar consultation with senior department financial officers. (9.35)</p>	<p>The Deputy Secretary, Financial Administration Branch and the Director, Professional Development in the Branch will be directly involved in the selection of all senior financial officers in departments and agencies. Treasury Board policy already requires senior departmental financial officers to be involved in the staffing of other financial officer positions.</p>	<p>The Financial Administration Branch is now consulted fully by the Staffing Branch of the Public Service Commission with respect to the filling of every financial position at the FI-7 or higher level and for every senior "full-time" financial officer position below this level. The Branch is concerned that every officer placed at these levels has demonstrated satisfactory knowledge, experience and competence. The Branch has been heavily involved in this area including participation in the boarding of the senior financial officer or "full-time" financial officer at Energy, Mines and Resources;</p>	<p>The action reported by Treasury Board can only be assessed in terms of the quality of those appointed to fill these positions.</p>

Treasury Board Report to the Public Accounts Committee, March 31, 1977

AUDITOR GENERAL COMMENTS ON T.B.  
RESPONSE AND ACTION TAKEN

T.B. ACTION REPORTED  
To March 31, 1977

Communications; Veterans  
Affairs; Customs and Excise;  
Public Works; Taxation and;  
Employment and Immigration.  
The quality of advice and  
assistance rendered in such  
promotional boards has been  
acknowledged by both the  
Public Service Commission  
and the deputy minister's  
concerned.

TREASURY BOARD RESPONSE  
June 21, 1976

AUDITOR GENERAL RECOMMENDATION  
(1975 Report)

10.39 (con'td)

AUDITOR GENERAL RECOMMENDATION (1975 Report)	TREASURY BOARD RESPONSE June 21, 1976	T. B. ACTION REPORTED To March 31, 1977	AUDITOR GENERAL COMMENTS ON T. B. RESPONSE AND ACTION TAKEN
<p>10.40 All the recommendations in this report have as their objective the improvement of financial controls. The more significant ones, either specifically or by implication, recognize the need for a central agency to supply overall direction. It is clear that if controls are to be co-ordinated and are to operate effectively, responsibility for the following activities should be clarified and unified wherever possible:</p> <ul style="list-style-type: none"> <li>- recommending government policies, directives and guidelines in the area of financial management and control, and providing interpretations thereof;</li> <li>- advising on the form of the Estimates and Public Accounts;</li> <li>- assessing departmental program and activity structures, and cost and other measurement systems in support of them;</li> <li>- approving and monitoring departmental budgetary control, financial reporting and financial control systems;</li> <li>- providing analyses of variances between planned and actual financial performance;</li> <li>- establishing standards for and monitoring internal audit practices within departments and agencies;</li> </ul>	<p>The Financial Administration Branch, Treasury Board Secretariat has been created to provide, in one organizational entity, the central leadership and guidance of the financial administration function. Minor changes to the relevant sections of the Financial Administration Act will eliminate anomalies by devolving all financial administration responsibilities on the President of the Treasury Board.</p>	<p>Within the Policy Development Division of the Branch three groups have been established concerned with General Policy and Advisory Services, Reporting Policy and Systems Policy. All these groups have been partly staffed with twelve officers presently on strength. Staffing will continue to be given a high priority. This Division has completed or in process of a number of projects to correct deficiencies identified in the several studies on financial administration in the federal government.</p> <p>The Professional Development Division has been established and staffed and is addressing the several concerns in this area.</p> <p>The Evaluation Division also is staffing and there are twelve officers presently on strength. This Division continues to perform its evaluation program to ensure that departments properly understand and comply with Treasury Board policy. In particular, the Internal Audit group is presently studying the means of improving internal financial audit within departments.</p> <p>In the short time since the Branch was established in March 1976, it has initiated action on many of the concerns identified and is organizing and staffing to ultimately perform all of the responsibilities identified by the Auditor-General.</p>	<p>The progress made in staffing the Financial Administration Branch is still far short of what is required to remedy the serious deficiencies revealed by the Financial Management and Control Study. While many actions reported in response to the recommendation in my 1975 Report are appropriate, they do not appear to be adequate to remedy the deficiencies in a reasonable period of time.</p> <p>While the Branch has been given responsibility for the matters referred to in the recommendations, effective action remains to be taken to:</p> <ul style="list-style-type: none"> <li>- improve the form of the Estimates and Public Accounts;</li> <li>- develop program and activity structures which are suitable for control purposes;</li> <li>- integrate performance measurement systems with other financial systems;</li> <li>- develop a central system for reporting variances between planned and actual financial performance.</li> </ul>
			<p>A Comptroller General needs to be appointed at a level where he can provide unchallenged and objective central leadership, where he can provide the leadership to staff the central agency with the numbers and quality of staff it requires, and where he can influence deputy heads in introducing needed financial reforms which may restrain their freedom of action. Without this catalyst for effective action, it is not likely that the grossly deficient state of financial management and control in departments and agencies will be quickly remedied.</p>

AUDITOR GENERAL RECOMMENDATION (1975 Report)	TREASURY BOARD RESPONSE June 21, 1976	T. B. ACTION REPORTED To March 31, 1977	AUDITOR GENERAL COMMENTS ON T. B. RESPONSE AND ACTION TAKEN
<p>10.40 - establishing the accounting practices governing the financial statements and Public Accounts of Canada; and</p> <p>- assisting the Public Service Commission in the selection, training and career development of financial staff. (10.36)</p>		<p>Notwithstanding the Branch's heavy involvement in the recruiting and staffing process, the Branch has not only met its current daily responsibilities but has also established a reputation as the centre of expertise, committed to providing reliable and prompt advice. The Branch is heavily consulted by all branches of the Treasury Board, deputy ministers, central agencies, professional accounting bodies as well as financial officers at all levels in departments and agencies of the Federal Government.</p>	





**APPENDIX G**  
**REPORT OF THE TREASURY BOARD SECRETARIAT**  
**TO THE STANDING COMMITTEE ON PUBLIC**  
**ACCOUNTS, MAY 24, 1977**



**REPORT OF THE TREASURY BOARD SECRETARIAT  
TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS, MAY 24, 1977**

May 24, 1977

Our File: 9122-9-4

Mr. Allan Lawrence, M.P.,  
Chairman of the Standing Committee  
on Public Accounts,  
House of Commons,  
Ottawa, Ontario.  
K1A OA6.

Dear Mr. Lawrence:

The purpose of this letter is to advise you of the actions reported to Treasury Board by departments and Crown corporations on some of the matters raised in the 1976 Report of the Auditor General. This is to facilitate the work of your Committee in its review of that report.

I am pleased to advise that actions have been instigated to resolve matters raised in 82 of the paragraphs in parts 6 through 19 of the report. The appendix explains the nature of the problems and briefly outlines the departmental actions. In this tabulation we have included paragraphs where the action instigated by the department is not necessarily complete but where it should be possible for the Auditor General during the fiscal year 1977-78 to confirm that the problems have been resolved.

There are 15 paragraphs where it will not be possible at this time to determine whether the action which has been initiated will resolve the problems or where the action required is not readily discernible. We will continue our work with the objective of taking remedial action where necessary.

In parts 2 through 5 of the 1976 Report, the Auditor General makes a number of recommendations concerning financial management and control on a government-wide basis. I have not dealt with these recommendations in this letter since they have been discussed by the Minister and myself in appearances before the Public Accounts Committee.

The remaining paragraphs in the Report are introductory or general comments where no action appears to be required.

We have forwarded a copy of this letter with the Appendix to the Auditor General and have requested his confirmation that the matters dealt with in his Report have been summarized adequately in the Appendix. He has so confirmed.

I trust that this information will be useful to you and your Committee in reviewing the 1976 Report of the Auditor General.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Maurice LeClair". The signature is fluid and cursive, with the first name "Maurice" being more prominent than the last name "LeClair".

Maurice LeClair.

Attach.



1976 REPORT OF THE AUDITOR GENERAL

PARAGRAPHS WHERE CORRECTIVE ACTION HAS BEEN INSTIGATED

<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem</u>
7.2 <u>Energy Supply Allocation Board</u> <u>Special freight compensation</u> <u>for cargoes lightened in the</u> <u>Caribbean en route to Canada.</u> The Auditor General is of the opinion that additional compensation of \$5 million was paid contrary to regulations.	The Board has decided to revise all import compensation claims for cargoes lightened in the Caribbean en route to Canada in which tanker bunker compensation was paid. These revisions will result in the recovery from future compensation payments of an aggregate amount which is currently estimated at \$3.4 million.
8.2 <u>Treasury Board -</u> <u>Adequacy of internal control.</u> The Auditor General notes that departmental practices do not comply with regulations respecting the receipt and deposit of public money and do not adequately control cash received.	These practices will be the subject of evaluation by the Treasury Board.
8.3 <u>Treasury Board -</u> <u>Deposit of receipts.</u> Delays in depositing receipts causes significant loss of interest earnings.	Existing policy will be expanded and departmental practices will be monitored by the Treasury Board.
8.4 <u>Treasury Board -</u> <u>Deposit procedures.</u> Receipts are not deposited by the most direct route resulting in a loss of interest earnings.	Treasury Board will monitor departmental practices.
8.5 <u>Treasury Board -</u> <u>Receiver General bank accounts.</u> The Auditor General notes that there are weaknesses in the operation of transfer accounts and deposit facilities.	Supply and Services has computerized the control of these accounts and improved the procedures.
8.6 <u>Treasury Board -</u> <u>Transfer of funds.</u> The flow of cash receipts to the Bank of Canada is delayed by the use of transfer accounts and poor departmental practices.	Departments are being persuaded to use telex facilities and transfers are being monitored. Treasury Board will review the procedures.

Paragraph Number and Problem	Corrective Action Taken and/or Being Taken to Resolve the Problem
<p>8.7 <u>Treasury Board -</u> <u>Bank-remitted receipts.</u> Delays occur in the transfer of receipts by chartered banks to the Bank of Canada.</p>	<p>These procedures will be reviewed by the Treasury Board.</p>
<p>8.8 <u>Treasury Board -</u> <u>Foreign currency.</u> Clearing procedures result in delays in crediting the account of the Receiver General.</p>	<p>Treasury Board will review current procedures with the Receiver General.</p>
<p>9.2 <u>Treasury Board -</u> <u>Relevance and adequacy of directives and guidelines.</u> The Auditor General notes that accommodation directives and guidelines may not provide adequate control over the utilization of space.</p>	<p>Improved directives and guidelines are being developed.</p>
<p>9.3 <u>Treasury Board -</u> <u>Adherence to directives and guidelines.</u> The Auditor General notes that Treasury Board does not monitor adherence to accommodation directives and that departments do not have adequate procedures and records to monitor adherence.</p>	<p>Treasury Board will monitor adherence and will ensure that departments monitor compliance.</p>
<p>10.1 <u>Treasury Board -</u> <u>Travel and Relocation Expenses.</u> The Auditor General notes that departments inconsistently apply, or substantially ignore, regulations and directives and make little effort to ensure the efficient use of travel funds.</p>	<p>Treasury Board has requested the departments involved to undertake an in-depth follow-up and to provide a detailed response to the findings of the Auditor General and will monitor departmental actions. A revised Travel Directive has been issued which will significantly improve control over travel and relocation expenses.</p>
<p>10.2 <u>Treasury Board -</u> <u>Authorization to travel.</u> The Auditor General notes that no advance written authorization is required for travel.</p>	<p>The revised directive requires pre-authorization.</p>

Treasury Board Report to the Public Accounts Committee, May 24, 1977

<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem</u>
10.3 <u>Treasury Board -</u> <u>Pre-audit of claims.</u> The Auditor General notes a lack of consistency in the extent of pre-audit between and within departments.	Information requirements for pre-audit are included in the revised directive.
10.4 <u>Treasury Board -</u> <u>Central Travel Service.</u> The Auditor General notes that the Central Travel Service is not always used and that departments do not have an adequate system to verify C.T.S. billings.	Treasury Board will require the use of C.T.S. and the establishment of adequate systems.
10.5 <u>Treasury Board -</u> <u>Travel by Air.</u> The Auditor General notes that travel claims were not filed to support all expenditures and justification for all costs was not always provided.	Adequate documentation for expenditures is required by the revised directive.
10.6 <u>Treasury Board -</u> <u>Mileage rates for privately-owned vehicles.</u> The Auditor General notes that there is seldom authorization for use of privately owned vehicles; that justification for use is not adequately documented and that expenses are excessive.	Existing requirements in these areas will be enforced.
10.7 <u>Treasury Board -</u> <u>Use of privately-owned vehicles on government business.</u> The Auditor General notes instances where mileage for privately-owned vehicles exceeded Treasury Board limits.	New Treasury Board policy specifies no mileage limits but requires departments to justify the use of privately-owned vehicles on a cost/beneficial basis.
10.8 <u>Treasury Board -</u> <u>Travel by rented vehicles.</u> The Auditor General notes that vehicles were rented without authorization and when it was not economical.	Authorization for vehicle rentals will be required.

Paragraph Number and ProblemCorrective Action Taken and/or  
Being Taken to Resolve the Problem10.9 Treasury Board -Travel by taxi.

The Auditor General notes that control over the use of taxis was generally poor.

Instructions were issued in January, 1976 which are still in force and which have resulted in significant improvement.

10.10 Treasury Board -Accommodation.

The Auditor General notes that hotel accommodation was paid at higher than agreed rates without proper explanation.

Departments will be required to report such cases to Central Travel Service.

10.11 Treasury Board -Meals and Incidentals.

The Auditor General notes the need for a composite allowance for major cities outside Canada and the U.S. and also notes instances of payments in Canada and the U.S. in excess of allowances without proper explanation.

A composite allowance is under consideration and proper receipts and justification will be required for expenses in excess of the allowance.

10.12 Treasury Board -Extended temporary duty.

The Auditor General notes that the requirements of the travel directive pertaining to employees in travel status for more than two months are not being consistently followed.

The travel directive has been clarified to ensure that departments arrange for less costly accommodation.

10.13 Treasury Board -Relocation expense.

The Auditor General notes that the Relocation directive appears not to be understood and that documentation of expenses is incomplete.

Departments will be required to obtain and maintain adequate expenditure documentation.

10.14 Treasury Board -Travel funds.

The Auditor General notes that travel advances are not being accounted for in accordance with Treasury Board requirements.

Treasury Board will ensure that departments adhere to the requirements.

<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem</u>
10.15 <u>Treasury Board -</u> <u>Hospitality.</u> The Auditor General notes that hospitality expenditures exceeded the maximums and were sometimes recorded as travel expenditures.	Treasury Board will ensure departmental compliance.
10.16 <u>Treasury Board -</u> <u>Departmental charge cards.</u> The Auditor General notes that the issue of charge cards should be restricted to those persons who travel on short notice or where CTS or cheque issue facilities are not available.	Departments are to review the issue of charge cards and their use is to be restricted.
11.1 - 11.2 <u>Treasury Board -</u> <u>Internal controls in payroll systems.</u> The Auditor General notes a number of deficiencies in payroll systems and refers to a comprehensive study which is in process.	The Pay Study Task Force Report has been issued and Treasury Board will monitor its implementation.
12.1 - 12.5 <u>Revenue Canada - Customs and Excise.</u> <u>Manufacturers' Sales Tax.</u> The Auditor General makes a number of recommendations to improve the administration of the Manufacturers' Sales Tax.	Improvements in all areas are progressively being implemented.
13.3 <u>Canadian International Development Agency -</u> <u>International Assistance Account.</u> The Auditor General notes that because certain expenditures are charged to this account the amount shown against specific allotments do not represent the total expended.	It is intended to abolish this account which will result in correct presentation of total expenditure.



<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem</u>
<p>13.4 <u>Canadian International Development Agency -</u> <u>International Food Aid Program.</u></p> <p>The Auditor General notes that a lack of co-ordination in operations combined with shipping problems has resulted in distribution of below standard food.</p>	<p>A complete study of procedures was carried out and implementation of recommendations is in process.</p>
<p>13.5 <u>Canadian International Development Agency -</u></p> <p>The Auditor General notes that:</p> <ul style="list-style-type: none"> <li>- some General Memoranda of Understanding do not indicate limits of duration or resources;</li> <li>- some contributions awarded by letter are not countersigned by the beneficiary.</li> <li>- certain countries do not honour commitments for financial participation resulting in CIDA incurring additional expenditures.</li> </ul>	<p>Individual agreements made under the memoranda indicate limitations and all long outstanding memoranda of understanding are being reviewed and will be revised as necessary. Such letters will be sent in duplicate and organizations will be required to countersign.</p>
<p>13.6 <u>Canadian International Development Agency -</u> <u>Regulations, rules and conditions.</u></p> <p>The Auditor General notes that:</p> <ul style="list-style-type: none"> <li>- Trainees' income tax is paid although not properly authorized;</li> <li>- All authorities applicable to contributions are not consolidated into one document.</li> <li>- Total compensation to experts sometimes exceed the \$25,000 limit without TB approval.</li> </ul>	<p>Improved supervision has been introduced to ensure adherence to the regulations; Consolidation of authorities is under review.</p>
<p>13.7 <u>Canadian International Development Agency -</u></p> <p>The Auditor General notes that:</p> <ul style="list-style-type: none"> <li>- Firms which supervise construction projects for CIDA exercise substantial contracting authority;</li> <li>- Amounts of advance payments are not always properly approved.</li> </ul>	<p>Financial and legal controls have been reviewed and improvements are being implemented.</p> <p>Advances payments will be approved in future.</p>

*Treasury Board Report to the Public Accounts Committee, May 24, 1977*

<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem</u>
13.10 <u>Canadian International Development Agency -</u> The Auditor General points out a number of weaknesses in the financial control of expenditures.	Steps have been taken to eliminate the weaknesses described.
13.13 - 13.14 <u>External Affairs -</u> <u>Disclosure in the Estimates and Public Accounts</u> The Auditor General notes that newly approved contributions are not disclosed in the Estimates or Public Accounts.	The department is agreeable to reporting new contributions in the Public Accounts.
13.15 <u>External Affairs -</u> <u>Estimates and budget control.</u> The Auditor General notes that transfers were made between allotments without proper authority.	Corrective action has been taken to correct this situation.
13.16 <u>External Affairs</u> <u>Internal financial controls.</u> The Auditor General points out a number of deficiencies in control over grants and contributions.	Action has been taken to correct the deficiencies.
13.18 <u>Industry, Trade and Commerce -</u> <u>Evaluating, processing and approving requests for assistance.</u> The Auditor General notes that certain improvements could be made in the procedures for approving submissions for assistance.	Steps have been taken to improve the procedures and the documentation
13.19 <u>Industry, Trade and Commerce -</u> <u>Agreements.</u> The Auditor General notes that certain contribution agreements were not properly signed or did not identify the officers who signed.	Procedures will be changed in accordance with the Auditor General's recommendations.

<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem</u>
<p>13.20 <u>Industry, Trade and Commerce -</u>  <u>Monitoring of projects and</u>  <u>audit of recipient claims.</u>  The Auditor General notes a lack of documentation relevant to the monitoring of projects and the lack of a standard audit report.</p>	<p>Procedures will be reviewed and documented and a standard audit report will be evaluated.</p>
<p>13.21 <u>Industry, Trade and Commerce -</u>  <u>Internal financial controls.</u>  The Auditor General notes certain deficiencies in internal financial control over payments of grants and contributions.</p>	<p>Action is underway and partially completed to correct these deficiencies.</p>
<p>13.23 <u>Regional Economic Expansion -</u>  <u>Interim financing</u>  The Auditor General notes that terms of agreements were not always adhered to and interim financing payments were not always recorded as advances.</p>	<p>A directive requiring adherence has been issued and advance payments will be disclosed as a footnote in the Public Accounts.</p>
<p>13.24 <u>Regional Economic Expansion -</u>  <u>Audit of Contributions</u>  The Auditor General notes certain deficiencies in the scope of audit of contributions.</p>	<p>Through the use of better techniques and the provision of more resources, audit coverage will be increased.</p>
<p>13.25 <u>Regional Economic Expansion -</u>  <u>Internal controls.</u>  The Auditor General notes a number of internal control weaknesses.</p>	<p>All weaknesses have been corrected.</p>
<p>15.1 -  15.8 <u>Presentation of the Financial</u>  <u>Statements of the Government</u>  <u>of Canada.</u>  The Auditor General questions the valuation and disclosure of certain assets and liabilities.</p>	<p>Action is underway to implement the recommendations of the Study of Accounts which will correct these issues.</p>

Treasury Board Report to the Public Accounts Committee, May 24, 1977

<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem.</u>
16.6 <u>Agricultural Products Board-</u> <u>Inventory valued in excess</u> <u>of estimated realizable value.</u> The Auditor General notes that an inventory of produce was valued at cost which exceeded the estimated realizable value.	This loss was recorded in the 1976/77 accounts. In the future such estimated losses will be included in the accounts.
16.7 <u>Atomic Energy of Canada</u> <u>Limited-</u> <u>Carrying values of prototype</u> <u>nuclear power stations in ex-</u> <u>cess of estimated realizable</u> <u>value.</u> The Auditor General notes that two nuclear power stations are carried in the accounts at cost which may exceed the aggregate of parliamentary appropriations and the proceeds from the eventual sale of the plants.	The Corporation is currently reassessing the capitalized value of these assets and in addition Treasury Board and the Department of Finance will be consulted in the determination of a carrying value that is realistic.
16.8 <u>Atomic Energy of Canada</u> <u>Limited -</u> <u>Failure to accrue interest on</u> <u>loans from Canada.</u> The Auditor General notes that the Corporation failed to accrue interest on loans from Canada relating to the financing of two nuclear power stations.	Funds were provided in 1976/77 Supplementary Estimates to delete the unpaid interest and the loans will be made non-interest bearing.
16.9 <u>Atomic Energy of Canada Limited-</u> <u>Failure to provide for loss</u> <u>relating to Argentine contract.</u> The Auditor General notes that the Corporation did not make provision in its accounts for the estimated loss on a contract.	The Corporation will reflect in their 1976/77 accounts a provision for the estimated loss on the contract.

Paragraph Number and Problem	Corrective Action Taken and/or Being Taken to Resolve the Problem
<p>16.12 <u>Environment Canada - Fisheries Prices Support Board -</u></p> <p><u>Weaknesses in administration.</u></p> <p>The Auditor General notes that</p> <ul style="list-style-type: none"> <li>a) he was not able to verify the appropriateness of deficiency payments;</li> <li>b) purchases were made in excess of the authorized level;</li> <li>c) sufficient evidence was lacking to determine that a Fisheries Prices Support Act requirement was complied with in the determination of the levels of payments.</li> </ul>	<p>The Department has:</p> <ul style="list-style-type: none"> <li>a) documented and standardized internal control procedures;</li> <li>b) obtained authorization for the excess purchases;</li> <li>c) established procedures for the documentation of the payment calculations.</li> </ul>
<p>16.13 <u>National Capital Commission -</u></p> <p><u>Capital assets recorded at values greater than amounts to be realized on disposal.</u></p> <p>The Auditor General notes that certain properties to be disposed of at values substantially less than cost were carried in the accounts at cost rather than at estimated realizable value.</p>	<p>It is anticipated that the valuation work required to record these assets at realizable value will be completed by April 1, 1978.</p>
<p>16.14 <u>National Capital Commission -</u></p> <p><u>Failure to repay loans from Canada.</u></p> <p>The Auditor General notes that a loan used to purchase land was not repaid upon the sale of this land in accordance with the terms of the loan agreement.</p>	<p>The Commission has taken steps to ensure that future Orders-in-Council specify the necessary authority.</p>
<p>16.15 <u>Transport Canada - Pilotage Authorities -</u></p> <p>The Auditor General notes that the Authorities have not recorded a liability for past service pension contributions for former contract pilots who have elected to become employees.</p>	<p>The Treasury Board Secretariat has confirmed that the Pilotage Authorities are responsible for these contributions and as a result of this the Authorities have recognized the liabilities in their accounts.</p>



*Treasury Board Report to the Public Accounts Committee, May 24, 1977*

Paragraph Number and Problem

Corrective Action Taken and/or  
Being Taken to Resolve the Problem

16.16 Royal Canadian Mint -

Understatement of net income.  
The Auditor General notes that a gain on the sale of land was not recorded as income and thus not paid over to the Receiver General.

The gain has been recorded as net income for the year ended December 31, 1976.

16.17 The St. Lawrence Seaway Authority -

Inadequate provision for depreciation of fixed assets.

The Auditor General qualified his Report on the financial statements because the Authority failed to provide adequately for depreciation on its capital assets.

As part of the revision of the Authority's financial structure being examined by the Government, a revised depreciation policy will likely be developed.

17.2 Environment Canada -

Payment to Manitoba improperly charged to 1975-76 appropriation.

An advance contribution of \$463,000 was made by the Department for the year 1976/77 but charged to a 1975/76 appropriation contrary to Section 30 of the Financial Administration Act.

Furthermore, audited statements of provincial expenditures have been received relating to only \$41,800 of Canada's contributions of \$1,125,000.

In future, advance payments will be charged to the appropriations in accordance with the Financial Administration Act. An adjustment has been made to charge the payment to the 1976/77 appropriation.

The province will submit the audited statements required.

17.3 Environment Canada -

Contract payment improperly charged to 1975-76 appropriation.

A contractor submitted a \$35,000 billing dated March 31, 1976 although the contract was dated April 21, 1976 for services to be rendered up to February, 1977. The payment was charged to a 1975-76 appropriation.

In future, documentary evidence will be required prior to any payments being made to ensure they are charged to the proper year. An adjustment has been made to charge the payment to the 1976/ appropriation.

Paragraph Number and Problem	Corrective Action Taken and/or Being Taken to Resolve the Problem
<p>17.4 <u>External Affairs -</u>  <u>Aquisition of properties</u>  <u>in Hong Kong improperly</u>  <u>charged to 1975-76</u>  <u>appropriation:</u>  A deposit of \$801,000  charged to the 1975-76  appropriation was made on  properties for which title  had not passed to the De-  partment prior to April  30, 1976.</p>	<p>The Department has taken action  to ensure that the instructions  for property aquisition at the  end of the year are adhered to.  An adjustment has been made to  charge the payment to the 1976/77  appropriation.</p>
<p>17.5 <u>Urban Affairs -</u>  <u>Expenditure in excess of an</u>  <u>appropriation.</u>  Expenditures charged to a  Vote with authorized expendi-  tures and contributions of  \$5,026,000 amounted to  \$5,227,600.</p>	<p>The overexpenditure was a Canadian  Habitat Secretariat responsibility  The Secretariat was terminated on  August 31, 1976 and the Department  will ensure adequate budgetary  control of the 1976/77 portion of  operating costs in accordance with  Parliamentary appropriations.</p>
<p>17.6 <u>Public Service Commission -</u>  (a) <u>Working capital advances ex-</u>  <u>ceeded.</u>  The Public Service Commission  Staff Development and Training  Revolving Fund limit was ex-  ceeded in each of the first 11  months of the year.</p>	<p>Approval was given through  Supplementary Estimates in 1976/77  to increase the authorized limit  of the Fund.</p>
<p>17.6 <u>Post Office -</u>  (b) <u>Working capital advances</u>  <u>exceeded.</u>  The working capital advance  account of \$1.5 million was  exceeded each month.</p>	<p>A submission to Treasury Board  to increase capitalization of  the account to \$3 million has been  approved.</p>
<p>17.6 <u>National Film Board -</u>  (c) <u>Working Capital advances</u>  <u>exceeded.</u>  Advances to the Canadian  Government Photo Centre  revolving fund exceeded the  authorized limit of \$450,000  in the months of April, July  and August, 1975.</p>	<p>Corrective action was taken in  response to a similar observation  in the Auditor General's 1975  Report resulting in correction  of the problem by September, 1975.</p>

*Treasury Board Report to the Public Accounts Committee, May 24, 1977*

<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem</u>
<p>17.7 <u>Canadian International Development Agency (CIDA) -</u> <u>Nugatory payment arising from the termination of a transportation contract.</u> The Canadian Commercial Corporation at CIDA's request awarded a contract for \$92,000 to ship emergency food supplies to Haiti. Prior to the arranged shipping date, CIDA arranged for the immediate delivery of the food. The original contract was cancelled and following legal advice a \$35,000 claim by the carrier was paid without Governor-in-Council Approval.</p>	<p>The Canadian International Development Agency will endeavour to prevent a similar situation from occurring in the future and will obtain Order-in-Council approval of the payment.</p>
<p>17.9 <u>National Revenue -</u> <u>Exchange loss due to mistake on cheque requisition.</u> The Auditor General notes that an error on a cheque requisition for foreign funds resulted in a loss of \$13,000 due to a decline in the exchange rate.</p>	<p>The Department has implemented additional controls which will greatly reduce the possibility of a recurrence.</p>
<p>18.2 <u>Canadian International Development Agency -</u> <u>Purchase and modification of a fishing vessel unfit for navigation.</u> As part of a project of technical assistance to the Republic of Columbia, \$828,000 was spent on the purchase and modification of a shipping vessel after which it did not even meet the tests of sea-worthiness.</p>	<p>Later tests have upset the results of the earlier tests and now it will be possible to use the vessel as originally intended as a multi mode fishing training vessel, subject to acceptance by the Colombian Government.</p>
<p>18.3 <u>Canadian International Development Agency -</u> <u>Deterioration of emergency food shipment.</u> Shipping difficulties resulted in deterioration of an emergency food shipment to Haiti valued at \$63,900.</p>	<p>A claim for the loss has been made against the shipper.</p>

<u>Paragraph Number and Problem</u>	<u>Corrective Action Taken and/or Being Taken to Resolve the Problem</u>
<p>18.4 <u>Environment Canada -</u>  <u>Inadequate control of payments to fishermen and fish processors.</u>  The Auditor General notes that a special Departmental rehabilitation program for the ground fish industry had numerous internal control weaknesses and that payments exceeded the quantity limits established on certain species by approximately \$1 million.</p>	<p>The Department has taken action to strengthen the internal control of the program. The Department notes that although quantity limits were exceeded on certain individual species, the dollar limits of the total program were not exceeded.</p>
<p>18.7 <u>Department of Indian Affairs and Northern Development -</u>  <u>Improper accounting and control procedures in the Indian Arts and Crafts Central Marketing Service Revolving Fund.</u>  The Auditor General notes the following with respect to the operations of the Fund.</p> <ol style="list-style-type: none"> <li>1) weaknesses in accounting and internal control procedures;</li> <li>2) improper retention of public money;</li> <li>3) Improper charges to Votes.</li> </ol>	<ol style="list-style-type: none"> <li>1) The Department obtained the services of a Company to operate the Central Marketing Service;</li> <li>2) Treasury Board approval for incorporation of the Central Marketing Service will be sought.</li> <li>3) Approval to liquidate the fund will be sought through 1977/78 Supplementary Estimates.</li> </ol>
<p>18.8 <u>Public Service Commission -</u>  <u>Deficit carried forward in excess of authorized amount.</u>  The Auditor General notes that a revolving fund deficit of \$747,000 was carried forward at March 31, 1976 when the authorized maximum carry over is \$150,000.</p>	<p>Authority has been obtained to recoup the accumulated deficit to March 31, 1976 through final Supplementary Estimates in 1976/77.</p>
<p>18.9 <u>Solicitor General -</u>  <u>Excessive payments for residential services.</u>  The Auditor General notes that an error in contracts prepared by the Department resulted in overpayments of \$61,000.</p>	<p>The contracts prepared for the fiscal year 1976/77 have been corrected.</p>

Paragraph Number and Problem

Corrective Action Taken and/or  
Being Taken to Resolve the Problem

18.10 Transport Canada -

Inadequate guidelines for  
determining ferry deficits.

The Auditor General notes the increasing deficits in the operation of the Newfoundland-PEI ferry service. The absence of an agreement covering the terms and conditions for the operation of the services results in the Department of Transport being unable to verify the ferry deficits charged to its appropriations each year.

Establishment of a new subsidiary company to operate the ferry services is being considered. The steps already taken have resulted in a levelling off of deficits. Progress on an agreement covering operations is being made.



















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